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IN THE COURT OF THE TRANSPORT TRIBUNAL

TRANSPORT ACT, 1947, AS AMENDED BY TRANSPORT ACT, 1953

IN THE MATTER OF THE APPLICATION OF THE
BRITISH TRANSPORT COMMISSION (1960 No. 2)

FOR THE ALTERATION OF THE
BRITISH TRANSPORT COMMISSION (PASSENGER)
CHARGES SCHEME, 1959

AND

IN THE MATTER OF THE APPLICATION OF THE
BRITISH TRANSPORT COMMISSION (1960 No. 5)

FOR THE ALTERATION OF THE
BRITISH TRANSPORT COMMISSION (PASSENGER)
CHARGES SCHEME, 1959

WEDNESDAY, 15th FEBRUARY, 1961

FIFTH DAY



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PROCEEDINGS OF THE TRANSPORT TRIBUNAL

WEDNESDAY, 15th FEBRUARY, 1961

PRESENT:

SIR HUBERT HULL, C.B.E. (*President*)

J. C. POOLE, Esq., C.B.E., M.C.

H. H. PHILLIPS, Esq., O.B.E.

Mr. E. STEWART FAY, Q.C., and Mr. T. R. CRAWFORD (instructed by Mr. M. H. B. Gilmour, Chief Solicitor to the British Transport Commission) appeared on behalf of the British Transport Commission.

Mr. R. W. GOFF, Q.C., Mr. LEON MACLAREN and Mr. GEORGE MERCER (instructed by Mr. J. G. Barr, Solicitor to the London County Council) appeared on behalf of the London County Council, Middlesex County Council and the Surrey County Council.

Mr. LEON MACLAREN (instructed by Mr. G. E. Smith) appeared on behalf of the County Borough Councils of West Ham, East Ham and Croydon, and the Borough Councils of Walthamstow and Leyton.

Mr. S. H. NOAKES (instructed by Mr. W. O. Dodd) appeared on behalf of the County Borough Councils of Brighton, Eastbourne and Hastings.

Mr. G. B. H. CURRIE, M.P. (instructed by Mr. W. P. W. Elwell) appeared on behalf of the Folkestone and Kent Coast Railway Travellers' Association and the North East Kent Railway Travellers' Association.

Mr. E. R. FARR, Town Clerk, appeared on behalf of Barking Borough Council and the South Essex Traffic Advisory Committee.

Mr. PHILIP M. VINE, Deputy Town Clerk, appeared on behalf of the County Borough Council of Southend-on-Sea.

Mr. C. W. WINNICOTT, represented the Bishop's Stortford Season Ticket Holders' Association.

Mr. F. A. RULER, represented the Federation of Residents' Associations in the County of Kent.

Mr. CHARLES SARSON, represented the Chelmsford Railway Users Association.

(*Mr. Fay*): Sir, we now have two further weeks' figures for the receipts of London Transport to be inserted in the Exhibit BH 31. I do not know if it would be convenient if I gave them to you now—the Exhibit is printed at the last page of last Monday's transcript, page 78?

For the week ended February 5, for which the budget is £1,600,000, the actual receipts were £1,587,000; the figure of deviation from budget should be minus 13, and the percentage figure, minus 0.8. In the cumulative figures, the cumulative actual receipts for the week amount to £7,965,000; deviation from budget cumulative, minus £1,000, and percentage deviation, nil—that is of course, to the nearest tenth of 1 per cent.

The figures for the next week ended February 12, for which the budget was £1,609,000: The actual receipts

were £1,610,000; deviation from budget, plus £1,000, and the percentage, plus 0.1 per cent. The cumulative figures: Actual receipts £9,575,000, which, as you see, is precisely the budget forecast figure, and, accordingly, the entries in the last two columns are nil or blank.

(*President*): It is as exciting as the Test Match!

(*Mr. Fay*): It is, Sir. It is an interesting example of the law of averages at work, and also, not unlike former years, as showing the accuracy of the forecasting of those who make up the budget.

(*President*): So far!

(*Mr. Fay*): I will recall Mr. Evershed for further cross-examination.

MR. ARNOLD GODFREY EVERSHED, recalled

Cross-examination by Mr. GOFF continued

492. Before I develop the cross-examination on the tables which you have now had an opportunity of considering, I would like to ask some questions about your main method, that is AE 5, is it not?—Yes.

493. That is what the Commission regard as their main method, is it not?—Yes.

494. The calculation in AE 5 depends upon the £6m. at line 11, contribution to Central Charges as adopted for 1958, being the correct figure, does it not?—Amongst other things, yes.

495. But it is a calculation to adjust that figure?—Yes.

496. So that if that figure were too high, the result of the calculation in AE 5 would itself be too high?—Yes.

497. That figure £6m. is not calculated anywhere in AE 5, is it?—No.

498. And it was not calculated in its predecessor in the previous Inquiry; that was in the Memorandum which was put in at page 497?—It was not calculated at that stage.

(*President*): That was the revised Memorandum, was it not, after our preliminary decision?

499. (*Mr. Goff*): Yes, Sir. (*To the Witness*): It is taken as appears at the foot of the first column on page 497, "Minimum contribution to Central Charges as adopted for the purpose of the 1959 Budget, Exhibit PJ 11." So the figure owed its origin, did it not, to PJ 11?—No, it owed its origin to the fact that it was the agreed amount to be contributed by London Transport for 1958, and is shown in our accounts at that figure.

500. This was not an agreed amount to be contributed, this was an estimated amount, was it not, on a percentage basis tested by several different tests?—It was an amount agreed to be contributed by London Transport to the Commission's Central Charges for 1958.

501. In PJ 11, at page 29, it appears in the budget, does it not, for 1958?—Yes.

502. Did not Sir Reginald Wilson in the 1953 Proceedings say that the basis upon which the share to be attributed to London was arrived at was a 10½ per cent. basis? Do you remember him saying that?—No, I do

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[Continued]

not, I think, perhaps, what he said was that the figure arrived at was equivalent to $10\frac{1}{2}$ per cent. of the Commission's total Central Charges.

503. But did you not, in fact, calculate the amount to be attributed to London on a $10\frac{1}{2}$ per cent. basis?—No.

504. How, then, did you arrive at the £6m. which appears in Exhibit PJ 11?

(President): It appears in PJ 11 as the minimum contribution, does it not, Mr. Goff.

(Mr. Goff): Yes, it does.

(President): But there were larger figures put forward at that Inquiry, and I think at this Inquiry.

(Mr. Goff): If larger figures were put forward, the £6m. was not the figure you had agreed on London, was it?—Yes. Larger figures were shown by various tests that we made, but, in fact, £6m. was the figure agreed between the Commission and ourselves for 1958.

505. How was it arrived at? Was it just a compromise figure, or was it based upon something?—It was really based on an earlier figure of £5½m. which applied for 1957 which was uplifted.

506. How was the £5½m. in 1957 arrived at?

(President): It was, in fact, agreed as being a right figure by Mr. Hill at the Inquiry, or not objected to.

507. (Mr. Goff): I am instructed that "not objected to" is the more accurate way of putting it, with respect, Sir. (To the Witness): Do you remember how the £5½m. was arrived at?—I think that probably goes back to 1953 when we, I think, put forward a figure of £5.4m., which seemed to find general acceptance at that time.

508. If you go back to 1953, was that not the figure about which Sir Reginald Wilson said that you tried several tests? The tests were: Gross receipts, book value of the fixed assets, the number of people employed, and tests of that description?—Yes.

509. And they produced comparable percentages and you adopted $10\frac{1}{2}$ per cent. as a result of that?—No, Mr. Goff; we have never adopted $10\frac{1}{2}$ per cent. and used it as a means of calculating Central Charges. We have calculated Central Charges by the exercise of judgment and reached a figure which works out at $10\frac{1}{2}$ per cent.

510. It is an exercise of judgment; it is not a mathematical calculation, is it?—Certainly not.

511. When Sir Reginald Holmes Wilson in 1953—

(President): I did ask to be supplied with a list of the books which were to be utilised by your clients, but we have never received such a list. Happily, we have brought large blocks of our library here, but it would be useful to have a list.

(Mr. Goff): I am instructed, Sir, that the Tribunal was given this reference. I do not know where the mistake has arisen.

(President): We had a list supplied by Mr. MacLaren in his capacity as Counsel for East Ham and West Ham, but I have not seen a list supplied by the London County Council. However, we happen to have the volume here.

(Mr. Goff): I will make inquiries into it. At this stage I can only apologise, because I thought the reference had been given.

(President): I am told a telephone message was received from the County Council that they were going to refer to the 1953 proceedings, but it had not reached me.

(Mr. Goff): I am sorry it did not reach you, and I tender our apologies.

(President): Sometimes we have a pamphlet referred to, and that takes a little time for us to get our own copies; so if there is anything more rare than our own proceedings, I hope we shall be informed.

(Mr. Goff): I do not think there will be any reference to anything other than your own proceedings, but if there is I will see that you are informed at the earliest possible

moment. (To the Witness): At page 485 he said: "The tests which we suggested with all their failings—and I do not think we omitted to point out their failings—were, first, the ratio of the book values of the assets; secondly, the ratio of the working expenses; and thirdly, the ratio of the staff employed as between London Transport on the one hand and the rest of the Commission on the other. All these ratios worked out somewhere between 10 per cent. and 11 per cent. As we said at the time we would not wish to base ourselves exclusively on any one of those tests, even though they were nothing but tests. Luckily, they all came to the same figure, I remember saying, and they were between 10 per cent. and 11 per cent., and we took $10\frac{1}{2}$ per cent., and that was how the first target was tested. It was not fixed that way, but it was tested that way, and the figures produced at the 1950 Inquiry as a test were $10\frac{1}{2}$ per cent. of £53m., which gives about £5½m. It actually gave just slightly more, but that was the test." That was the way you started in 1953 to apportion these Central Charges.

(President): No. What Sir Reginald Holmes Wilson is talking about there is what they had done in 1950.

512. (Mr. Goff): Then you started even earlier than 1953, in 1950. Did you carry on the basis of apportioning throughout?—No, Mr. Goff. I think Sir Reginald is saying here that the figure of Central Charges was not fixed in that way; it was tested in that way.

513. Was it fixed merely by an exercise of judgment at what you thought would be the fair share, having regard generally to the size of the undertaking as a whole and London Transport by itself?—Yes, with a good deal of reference to what had been agreed in previous years.

514. Had what had been agreed in previous years been agreed simply as an exercise of judgment, or as a calculation?—An exercise of judgment.

515. So it was a general impression that that would be the right figure, having regard generally to the comparative size of the undertaking as a whole and London as a section by itself?—Not merely size, having regard to the number of other tests which you have mentioned.

516. You took these tests into account in exercising your judgment?—Yes.

517. Is not the major part of what has to be taken into account in these Central Charges interest on capital?—Certainly.

518. In fact, that is overwhelmingly the greatest part?—Yes.

519. Do you think these tests are reasonable tests to apply when you are considering an apportionment of interest on capital?—The tests taken together, we say, ought to indicate the area in which the reasonable contribution by London Transport should fall.

520. Do you think, when what you are apportioning is mainly interest on capital, that these tests are reasonable tests?—Yes.

521. Gross receipts do not necessarily have any relationship to the capital involved, do they?—I would expect them to have some relationship, yes, in the sense that a bigger undertaking would earn more gross receipts and have to bear more Central Charges.

522. Not necessarily; it would be affected by a lot of considerations?—Yes.

523. Some types of business need more capital than others?—Yes.

524. It would be affected by the nature of the management, would it not?—I do not really know.

525. Certainly what gross receipts you get from your capital invested would be affected by the nature of the competition, would it not?—I do not know the answer to that either.

526. Would you not agree with it?—A degree of competition would, presumably, affect the amount of traffic that any activity of the Commission would be able to carry, but that in turn, I should have thought, would determine the amount of capital equipment they would need.

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[Continued]

527. The degree of competition might well affect the measure of gross receipts got out of the capital involved, might it not?—Possibly.

528. And the nature of the demand might have an influence as well, might it not?—Yes.

529. I am suggesting to you that apportioning on the basis of gross receipts when you are apportioning interest on capital is a wholly unsatisfactory test? — It is an indication.

530. Would you agree that it is not a satisfactory test? — I do not accept that any test is satisfactory viewed in isolation.

531. Would you agree it is a less satisfactory test than the calculation which Mr. Hill put forward, where he calculated an apportionment based on comparison of capital invested?—I think probably the latter is a more satisfactory test.

532. He did put forward such a test, did he not, in the Tables SWH 4 and SWH 5 which appear at pages 219 and 220 of the 1959 transcript?—Mr. Hill did put forward two tables.

533. SWH 4 at page 219 is a statement of the details of the whole of the Central Charges, is it not?—Yes. I think you are really referring to SWH 5 as the test.

534. The figure in SWH 4 was carried into SWH 5 and appears at line 15 of SWH 5?—Certainly; but SWH 5 is the table which constitutes the test.

535. Indeed it is; and it is there apportioned, is it not, according to the capital invested in the Transport Executive on the one hand, and the total capital invested in the Transport Commission on the other?—Not wholly. It only brings in, in my view, some of the capital invested in London Transport and some of the capital invested in the Commission.

536. We will discuss in one moment the errors in it, but as a method would you agree that it would be more satisfactory to do it in this way than to apply any of the tests by which you tested your judgment?—I think this type of test probably produces the more nearly correct answer.

537. Thank you. Do you criticise the figures in SWH 5 at page 220 of the 1959 Inquiry?—I have pointed out that it does not take account of all the capital invested in London Transport.

(President): Mr. Goff, are we really going to retry the 1959 Inquiry?

(Mr. Goff): No, Sir; but I am going to ask you to retry the issue as to what is a proper allocation to Central Charges, because that has never been accepted, and I think my learned friend Mr. Fay in opening said that that issue was open.

(President): All issues are open, but it is going to take us a long time if we go through all Mr. Hill's tables from 1951 onwards, is it not?

538. (Mr. Goff): What I want to go through is SWH 4 and SWH 5 and the continuations which I put in on Monday. (To the Witness): You say SWH 5 in 1959 does not include all the assets of London Transport?—I do say that, yes.

539. What was omitted?—Debtors, for example.

540. Anything else?—Bank balances and creditors.

541. If they had been taken into account they would not have increased London's share of Central Charges according to this method of calculation, would they?—I do not know.

542. I am instructed that they would not, but you do not know?—No, I do not know.

543. Would you expect them to make any appreciable difference?—I would have expected them to have the effect of increasing the London Transport contribution, yes.

544. Appreciably?—I do not know, Mr. Goff; I have not done the calculation.

545. Of course, there was a similar omission from the total capital invested in the Commission as a whole?—Oh, certainly.

546. I am instructed that if that had been included on both sides of the fence, that would have made little difference, and such difference as there was, would have been in favour of London. Would that surprise you?—“In favour of London”?—I am not sure what those words mean.

547. It would have made London's liability rather less than more—Then I am surprised they were not included!

548. There were not figures available for the purpose at that time, were there?—I forget.

549. There have only been separate figures of that order for London since they were published in this book “London Transport in 1959”, have there not?—Yes, but the same can truly be said of some of the items which are included in the table, such as stores and materials.

550. But there were accounts of the Commission in which these figures could have been obtained, were there not?—Not for London Transport separately, I think.

551. We knew the stores for 1948 for London separately, did we not?—I do not know.

552. And that would be a figure which did not change very much, would it not?—I would not think it did change very much, no; but the inclusion of the stores and materials item, I should have thought, had the effect of depressing the numerator in this fraction and enhancing the divisor.

553. But that was in fact included, was it not—the stores—so you get no alteration on that account?—I think the inclusion of that item had the effect which I have just mentioned.

554. But they were included; they were not omitted. The only thing that was omitted was debtors' cash balance and creditors?—The inclusion of those items would have the opposite effect.

555. But they were in, so they would not affect the calculation?—They are not in.

556. Stores and materials?—No; the other items, the inclusion of which I think would have the reverse effect, are not in.

557. Do you say that if debtors' cash balance and creditors were included, the figure for London would be higher or lower?—I think it would be higher.

558. We say that it would be miles lower; the dividing fraction would be miles lower. Does that surprise you?—That surprises me a little, yes.

559. Subject to that point, would you say that the figure shown by Exhibit SWH 5 at page 220 is likely to be a more reliable figure than the exercise of judgment, tested by the various tests which we have been discussing?—Yes. May I say that Exhibit SWH 5 is only a variation of a test which we have ourselves undertaken and submitted to this Tribunal.

560. That is what is called the specific approach?—No; that is a test of the global approach, which we ourselves did on the occasion of the last Inquiry and submitted to this Tribunal.

561. Have you a table which shows that?—Yes; I think it is Exhibit WW 12.

(Mr. Fay): It is on page 117.

562. (Mr. Goff): I am obliged. (To the Witness): There are several tests there; there are four. You are referring to Basis 1, net book value of fixed assets?—Basis 1 B is more nearly what Mr. Hill has done, I think, in SWH 5.

563. Yes, but it is not as accurate as SWH 5, is it?—I do not accept that.

564. It does not take into account this item of the value of stores, does it?—No, but bringing that in in isolation does not necessarily make SWH 5 any more accurate than WW 11.

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[Continued]

565. But it is not brought in in isolation; it is brought in as part of the calculation?—It is brought in in isolation in this sense, that it is the only current asset which is included.

566. At all events, the inclusion of it must make the calculation the more accurate, must it not; it is another factor which should be there, but which you have left out?—I do not think that necessarily follows, Mr. Goff.

567. I put it to you that your global approach in Basis 1, as it does not take stores into account, is a less accurate test than our Exhibit SWH 5, which does take it into account. Would you accept that?—No.

568. Why not?—Because the test that we made was a test based on net fixed assets, which is a recognisable basis for a test.

569. But it is not as accurate a test as a test based on capital investment, when the major thing you are considering is apportionment of interest on capital—

(President): I do not want to interrupt, Mr. Goff, but sooner or later you will be telling us what you are going to ask us to accept, will you not? At the moment I am troubled, Mr. Hill's figures at page 220 in the last Inquiry, Table SWH 5, bring out as the contribution of London Transport for 1956, £5.4m., and for 1957, £5.3m.

(Mr. Goff): Indeed it was, Sir.

(President): Whereas the table put in yesterday, Exhibit SWH 3 at this Inquiry, brings out for those years £5.77m. and £5.72m. Which are you going to stand on, the first edition or the second edition?

(Mr. Goff): SWH 3 is dealing with the alternative, the approach on the lines of Exhibits PJ 16 and AE 6.

(President): I appreciate that, but which are you going to stand on? These have been put in. Perhaps it is unfair to ask you that at this stage, but it does puzzle me a little.

(Mr. Goff): The difficulty is that the Commission has put in two alternatives, and I have to deal with both, which I am trying to do, but the one we prefer is SWH 1 and SWH 2, put in in this Inquiry, which is a continuation of what I am now putting to the Witness.

(President): And SWH 3 in this Inquiry is a test, but not as satisfactory a test?

(Mr. Goff): And it is an alternative to that which the Commission has done.

(President): I think we shall have a long way to go if we are going back to the 1959 Inquiry; we shall have to refresh our memories with Mr. Lawson's calculations, which arrive at a different figure—but anyway, that is what we are here for.

570. (Mr. Goff): Yes, Sir, that would be so. I am sorry to take up time, but it is a matter of vast importance and it bears upon the proposals I am putting forward for modified charges, trying to show that the yield of my modified charges would in fact be sufficient. (To the Witness): You were saying, when the learned President raised the question, that this is on the net book value of fixed assets, which is a recognised method?—I said a "recognisable" method.

571. Yes, but when you apportion interest on capital, it is a less satisfactory method than taking an apportionment based on all the capital involved, is it not?—Not necessarily.

572. Would you agree that it is in this case?—No, I do not agree. This is not a method of assessing Central Charges on the basis of all the capital involved; this is a hybrid. It includes all the fixed assets and some of the current assets. Whether making it a hybrid makes it more accurate or not, I do not know, but I do not think it follows.

573. What do you say is a hybrid? The Central Charges are a hybrid or that one of these tests is?—No; the apportionment of Central Charges, which includes all the fixed assets and some of the current assets only, is what I would say is a hybrid.

574. Yes, but it is better, is it not, than one which has the fixed assets and nothing else?—I must say again, not necessarily; I do not think it follows.

575. If you include the current assets and current liabilities, they largely cancel out, do they not?—I do not know.

(Mr. Fay): Of the Commission or of London Transport?

576. (Mr. Goff): (To the Witness): If you take the British Transport Commission consolidated balance sheet of the 31st December, 1959, at page 5 of Volume 2, you will see: Current assets, Bank balances and cash, £12m; outstanding traffic accounts, £69.0m.; other debtors and payments in advance, £24.0m. Against current liabilities, you will see: Bank advances £4.8m.; creditors and accrued expenses £101m., which is £105m. Stores and materials make a great difference, but the other current assets, Bank balances and outstanding accounts more or less balance, do they not?—Yes.

577. And is that not generally the position?—I think you omitted one item—I am not quite clear why—amongst the current liabilities.

578. That does not involve any payment; you are referring, are you, to "interest (less income tax) accrued on capital liabilities"?—Yes; I rather wondered at the exclusion of the item.

579. It would not involve any payment out until it was due, although the whole £21.0m. is brought into account during the year; you have to discount that, do you not?—I would expect it to be due the following day.

580. If you include that, you then get there a minus capital investment, do you not?—Yes, I think so.

581. And in London you would get a minus capital investment in the same way by including the current assets, would you not?—Probably a very much larger one, I should think.

582. If that were larger, the inclusion of the current assets would reduce the London share; that must be so, must it not?—No.

583. Would it not? There would be less capital invested, would there not?—Certainly, but we are concerned here with two sides of a fraction, and I do not think I can say, sitting here, what would be the consequence of altering the two parts of that fraction; I have not worked it out.

584. So that if the debit balance of current assets was greater for London in proportion than it was for the Commission as a whole, whatever effect it had must be to reduce the share of Central Charges allocated to London?—It has had the effect of increasing the divisor to a greater extent proportionately than it reduced the numerator of that fraction. I think it would have that effect, yes.

585. Yes, and the stores, which are included in our SWH tables, and not in your Table WW12, is an important element in determining the fraction, is it not?—No, I should not have thought it was. The fixed assets must be the main element in determining the fraction.

586. And stores are a very substantial item; the total in British Transport is £100m. of stores in 1959, is it not? The fixed assets are £2,000m.

587. Yes, and £100m. is an important item in the calculation, is it not?—Not in relation to a circulation which depends mainly on an item of £2,000m.

588. Then can you see anything seriously wrong with the calculation in SWH 5 in the previous proceedings?—I have said that it is a test, or one of the tests, and very nearly the same test as we have supplied ourselves and submitted to the previous Inquiry.

589. But it produced a substantially different result from your Basis 1B?—Yes; that particular basis has always produced the lowest answer.

590. And I am submitting to you that it is the one which ought to be adopted, because it is more accurate

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[Continued]

than your calculation based on net book value of fixed assets only?—I agree that it can be adopted as indicating the lower limits of the area in which the figure should fall.

591. It does more than indicate the lower limits of the area; it indicates a proper figure, does it not?—Are you asking me a question?

592. I was, yes, and I thought it sounded like one.—I do not agree.

593. I said: It does not merely indicate the lower limits; it indicates the proper figure to be adopted, does it not?—And I said: I do not agree.

594. Then SWH 1 and SWH 2 which you had given to you on Monday continue SWH 4 and SWH 5 of the previous Inquiry, at which we have just been looking; they continue, on exactly the same lines, to bring the calculation down to 1959?—Yes.

595. And that gives for 1958 the figure of £53m. against the £60m. which is taken in AE 5, and for 1959 £53m. again against the £61m. which is taken in AE 5—Yes.

(President): What was that figure? Was it £61m. in AE 5; I am not quite certain?—It is the figure in line 12, Sir.

(Mr. Goff): Yes, the final line; the £60m. was increased by the AE5 calculation to £61m. Now I am afraid, Sir, that I shall have to add one table here—

(President): Before you go on to that, Mr. Goff, is not the proper comparison, looking at the new table SWH 2, the two figures of contributions to Central Charges, £53m. and £53m.? If you are comparing that with AE 5, surely the comparable figures are the £60m., are they not?

(Mr. Goff): No, Sir; they are for 1959. The comparable figure is £61m.

(President): Is it? Surely the £61m. is a contribution plus an interest charge on new borrowing, and SWH 2 at this Inquiry is a computation which does not, as far as I can see, take into account the new borrowing—not explicitly anyhow.

(Mr. Goff): I think I know the answer, Sir, but I should like to get it absolutely right; may I take instructions on that?

(President): Yes, do.

(Mr. Goff): The answer is that the interest on new borrowings is already in, because we have taken our capital basis apportionment on everything right down to 1959, whereas they have taken a basic figure and adjusted it for 1959. The figures I am now going to put forward in a further table are taken on the basis of £53m. adjusted for the year 1961 and 1962.

(President): And that is SWH 8?

596. (Mr. Goff): Yes, Sir. I am sorry you have not had time to look at this one, but it is somewhat on the lines of AE 5, and no doubt a person who is as versed in figures as is Mr. Evershed will be able to follow it; at least I hope so. (To the Witness): You appreciate that the purpose of this table is to adjust the figure of £53m., which we take as the basic figure instead of your £60m. for new borrowings, for 1960, 1961 and 1962, in the same way as you were doing with your figure of £60m. in your Exhibit AE 5?—Yes.

597. So we have in line 1, the net capital outlay of £13.1m.; that is the same figure as you had in AE 5?—Yes.

(President): In SWH 8, line 1, in the 1960 column, the figure of £13.1m. is the same figure as the figure in line 3 of the 1960 column of AE 5; is that what you are saying, Mr. Goff?

598. (Mr. Goff): Yes, Sir. (To the Witness): Then we come to the internal financing; the figure of depreciation is £37m., and that is the same figure as you have in line 4 of AE 5?—Yes.

599. Then you will see "Margin: Net revenue (AE 5)" and that is £8.0m., which is the estimate for the

year; then "Less Central Charges (as below)"—that is as calculated, and that is at line 15 of SWH 8?—Yes.

600. The net revenue figure is the right figure, although it does not appear in SWH 5—It can be taken from column 10 of AE 6.

(Mr. Goff): Yes.

(President): Had it not better be taken from AE 6, Mr. Goff? Although no doubt it can be derived from AE 5, it appears expressly in AE 6.

(Mr. Goff): Yes, Sir, I respectfully agree.

(President): Your line 4 says: "Less Central Charges (as below)".

(Mr. Goff): Yes; that takes you down to line 15.

(President): Yes, but we are now at the familiar game of being taken from one page to another. Where does line 15 take me to?

(Mr. Goff): I am not sure that I follow your question, Sir; it does not take you anywhere.

(President): When were the Central Charges for 1959 calculated at £5.6m.; was that in one of the earlier tables?

(Mr. Goff): It is calculated in this table; it is then written back here, because the proper figure to be taken off net revenue to find the revenue margin is what you will have to pay in the year in respect of Central Charges; so you calculate it here, and it comes to £5.6m. Then you take it off the net revenue in order to find what the revenue margin was. It is to be assumed that the calculation of that is an "X", and then filled in; if one does that, one is writing back—

(President): Yes; no doubt I shall understand it when I see it in print.

601. (Mr. Goff): It is a difficult conception, Sir. You take the net revenue and deduct from it the actual Central Charges to be paid in the year. That figure at the start has to be calculated, so that in working out the problem you have to take an "X", and when you have calculated it, you put it back in the place of the "X", so that your "Less Central Charges (as below)" is a deduction of what in fact you have put back, which leaves the revenue margin of £6.1m., which is a subtraction of £2.4m. (To the Witness): Do you follow the piece of complicated mathematics, Mr. Evershed?—I think I can follow that.

602. And it would be right, would it not?—I do not raise any comment upon it at this point.

603. So you then deduct—

(President): You must not press Mr. Evershed to say that he does not understand why the Tribunal are being so sticky about it, Mr. Goff; it is simple to him.

604. (Mr. Goff): I fully understand, Sir; it took me a very great deal of time indeed to learn this. You then deduct the £6.1m., so you get the net increase in capital invested, which is £7.0m., and that is the figure which is comparable with £8.2m. in line 9 of AE 5. (To the Witness): Are you still with me, Mr. Evershed? You were a moment ago.—No.

605. I thought we might have parted company.—I cannot see quite why line 7, under year 1960, is a blank.

606. It is because it is blank in yours. It is plus £2.0m. in 1959, but it is blank in 1960 in AE 5?—Yes, but the line above line 5 shows an expenditure of £300.000, which was found in 1960, and which I think has to come in this table somewhere.

607. Yes; that is omitted from this table. Mr. Hill has never brought that particular item in, and he has not therefore included it in this calculation; but it is too small to have any effect on the result, is it not?—I really do not know, but I can think of no reason for leaving it out.

608. We did not put it in before because we had not the figure, so for consistency we left it out this time; that is the explanation, but I am told that it is so small that it makes no material difference to the answer.—I accept that.

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[Continued]

609. You do accept that;—Yes, I accept that, but with this reservation, that if it is a figure which is big enough to bring in in 1962, I should have thought that it was big enough to bring in in 1960.

610. But that is not right; it is only in AE 5 in 1960 and 1961. It is £0.3m. in 1959, and 1960, and nil in 1961 and 1962 in AE 5; is it not?—I was speaking of the figure; the figure of £300,000 in 1960 has as much effect as the figure of £300,000 in 1962.

611. But you said it was big enough to bring in in 1962, so surely it was big enough to bring in in 1960. But that is a misconception, is it not—it does not appear in 1960 at all; it is a blank.

(President): A figure of £0.3m. whether you describe it as large or small, does appear, and what Mr. Eversherd is saying that if it is important enough to appear in 1962, it is important enough to appear in 1960.

612. (Mr. Goff): But it is a different figure which appears in 1962; although the actual amount is the same, it is not the same item as we are talking about in AE 5, bus and coach overhaul. (To the Witness): Is that right?—Yes; it is not the same item, but it is an item of a very similar kind.

613. Taking the criticism that that item is omitted in 1960, which obviously it is, do you agree that if it had been included, it would not have made any material difference to the result of the calculation; it would not alter any of the other figures at all?—It is a matter of arithmetic, and I cannot work that out sitting here.

614. I have submitted that to you; Mr. Hill has said that it is so, and no doubt if you disagree you can, if necessary, be recalled after Mr. Hill has given his evidence. My instructions are that it does not make any difference. Subject to that, are we back together again, that the net increase in capital invested which appears in line 9 of SWH 8 is comparable with the figure of £8.2m., which appears in line 9 of AE 5; do you agree that?—I agree that it is a comparable figure; it is subject to the omission of the £300,000 and the use of a different figure for Central Charges.

615. But subject to the omission of the £300,000 and the use of a different figure for Central Charges, you would not quarrel with this calculation so far, would you?—No.

616. Then in line 10 we take the total capital invested to the end of the year 1959 to the nearest million, £153m.; that is taken from the present SWH 2, line 6?—Yes.

617. And then we add to that the net increase in capital invested, and so we get £160m., because that is £153m. plus £7.0m., the £7.0m. coming from line 9?—You have added to £153.0m., a figure of £7.0m., which is the net capital expenditure for 1960?

618. Yes, I have added to the 1959 balance the additional £7.0m. so as to bring it up to £160.0m.; then line 11 takes the mean for the year—that is, the mean increase is half the £7.0m. Do you follow what is done there as a fact?—Yes.

619. And that is the right way of dealing with this, is it not; it is right to take mean figures, because the change occurs gradually over the year?—It is a permissible way.

620. Then line 12 is the increase on the mean for 1959; the figure of £152m. comes from line 7 of the present SWH 2, which was the mean for 1959?—Yes.

621. And so the increase on the mean is £4.5m.?—Yes.

622. Therefore, line 12 shows the mean increase of capital involved during the course of 1960; that is right is it not? Let me put it to you in this way . . . I understand the figures. The only thing I was going to say was that the increase of £4.5m. shown under 1960 at line 12 is an increase in net capital outlay, which is not quite what SWH 2 is dealing with; SWH 2 includes other things besides capital assets.

623. When you say that SWH 2 includes things which are not here, are you referring to stores and materials,

accumulated deficit and balance of maintenance equalisation account, which are at lines 2, 3 and 5?—I was thinking principally of the first two.

624. That is the stores and materials and accumulated deficit?—Yes.

625. The figure for stores and materials is a static figure, is it not?—I do not know, but I do not imagine they will have varied very much.

626. So they would not be an item which would be brought into the calculation in SWH 8, because there is no appreciable movement in the figures?—Probably not; it is probably unnecessary.

627. The other one which you regarded as important is the accumulated deficit at line 3 of SWH 2?—Yes.

628. Is that not provided for in lines 3 and 4 of SWH 8, because the revenue margin is there taken into account and that provides for the change of the deficit?—I think it may be wrapped up here somewhere, yes.

629. So there was in fact nothing in that criticism at all, was there?—Very little.

630. Then if it was right to start with the £5.3m. as Central Charges for 1959 (which of course you are disputing) and subject to your point as to the £300,000, you would not quarrel with what we have done as far as we have gone down to line 12?—No. In fact, this calculation shows much the same sort of increase in Central Charges between 1959 and 1960 as our own calculations have shown.

631. Then one takes in line 12 the increase on the mean for 1959, which is £4.5m., and in line 13 the interest on it at 6 per cent., which is £0.27m.?—Yes.

632. That interest has to be provided in that year, so we have then added it on to the basic Central Charges with which we started, £5.3m., and have produced a figure of £5.6m.?—Yes.

(Mr. Fay): If your figure at line 13 is 6 per cent., that should be compared with our interest at line 10, £0.3m., which is a cumulative figure; if one deducts £0.1m. in the previous year, it is £0.2m., so you have more interest than we have? I do not know whether that is right, or whether it is a fallacy.

(President): No; it is 6 per cent. on a total expenditure—a mean expenditure—of £4.5m. It must be £0.27m. rounded up to £0.3m.

(Mr. Fay): Yes, Sir; in AE 5 the interest for 1960 is £0.3m., from which he deducts £0.1m. because it is cumulative, and he says, therefore, that it is only £0.2m., which is less than our figure of £0.27m.

(President): Yes; he seems to be inviting you to make your table better.

(Mr. Fay): I am trying to infer that these figures are better for me than my own figures.

(Mr. Goff): I understand it is a fallacy, Sir; would you forgive me for one moment while I find the answer?

(President): Or perhaps you would like to come back to it, Mr. Goff?

633. (Mr. Goff): Yes; I want to give my learned friend the proper answer, so perhaps he would be content to wait until after the adjournment. (To the Witness): Therefore, we get £5.6m. for 1960 against your £6.3m?—Yes.

634. And we get £6.0m. in 1961 against your £6.8m.?—Yes.

635. And £6.5m. in 1962 against your £7.4m.?—Yes.

636. I need not take 1961 and 1962 through in detail with you; you have no criticisms, have you, to level against the calculation for 1961 and 1962 other than the criticism you have levelled against 1960?—Subject to looking at the figures. There is just one comment I might make perhaps; that is that it does seem to me that SWH 8 is a use of the specific approach in a sense, grafted on to results obtained by the global approach.

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[Continued]

637. No; it is the use of the capital apportionment. That is in fact a fair comment, but one could not forecast all the fixed assets of the British Transport Commission two years hence, so something on these lines is the only way of carrying your table forward for 1960, 1961 and 1962?—Yes, that is one of the weaknesses of these tests; they can only be used backwards, and they cannot be used very easily to forecast.

638. But this method of projecting forward, if the basic figure is right, is at least no worse than your AE 5?—I think that is probably fair.

639. Now could you explain in your AE 5 where you get the revenue margin in line 7?—Yes. As far as 1959 is concerned, of course, it is a known figure—nil.

(Mr. Foy): It is in fact Volume 15 of AE 6, is it not?

(Mr. Goff): I thought it might be—no, I do not think it is. (To the Witness): Do you know where line 7 of AE 5 comes from?—Yes.

(Mr. Goff): I think I do, but I want to see what the Witness tells me.

(President): Line 7 for 1959; is that what you are asking for Mr. Goff?

640. (Mr. Goff): Line 7 right through 1960, 1961 and 1962. (To the Witness): If you take 1960, where does line 7 come from?—It is the result of assuming a net revenue of £8.0m. for 1960, which is the figure shown in column 10 of AE 6, and deducting the agreed contribution to Central Charges for 1960 of £6.5m., leaving £1.5m.

641. When you say the "agreed contribution", do you mean a contribution which the Transport Commission has agreed with the Transport Executive, or do you mean the figure calculated in AE 6?—I mean the figure which has been agreed for 1960 between the Commission and the Executive.

642. And you say that was £6.5m?—Yes.

643. Was that agreed after Exhibit AE 6 had been prepared or before?—At about the same time, I think.

644. Was it agreed because of Exhibit AE 6?—No.

645. Where does your line 7 for 1961 come from?—Line 7 for 1961 comes again from table AE 6, where, in column 10 for 1961, we show an estimated net revenue of £8.1m.

646. You say it comes "again" from AE 6, but for 1960 you said it came from an agreement between the Transport Commission and the Transport Executive?—No, I did not. We were speaking then of Central Charges; I am speaking now of net revenue.

647. Then we may be at cross purposes—

648. (President): It is the first stage in the calculation, is it not, Mr. Eversherd?—Yes, Sir.

649. (Mr. Goff): You take your £8.0m. which comes from column 10 in AE 6, and you deduct the Central Charges?—Yes.

650. And you said that for 1960 you deducted as Central Charges the amount which had been agreed?—Yes.

651. That gave you £6.5m. which in fact is virtually the same as you got in column 5 of AE 6?—Yes.

652. And when we come to 1961 you take the £8.1m. net revenue and deduct something for Central Charges?—£7.0m.

653. Where did you get that from?—I got that in this way: It is the figure which has been provisionally agreed as between the Commission and London Transport as the probable contribution for 1961.

654. Was that agreed because it is the figure calculated in AE 6?—Not precisely because it was the figure calculated in AE 6, but for the purpose of preparing our 1961 budget we did agree this figure provisionally with the Commission, having regard to the sort of results thrown up by AE 5 and AE 6.

655. Have you agreed a figure provisionally for 1962?—No.

656. So the figure in line 7 of AE 5 for 1962 must come from AE 6, must it not?—It is a guess based on AE 6—Yes.

657. It is not a guess; it is a calculation taking the precise figure out of AE 6?—No, it is a guess which is based on AE 6. We do not, as between the Commission and ourselves, adjust these figures by more than half a million; we stick to round half-millions for this agreed contribution.

658. And you have a figure of £1.4m. for 1962?—Yes.

659. Is that not £8.9m. in column 10 of AE 6, less £7.5m. in column 14?—Yes.

660. And it is the fact, is it not, that your figure for 1962 in line 7 of AE 5 is taken from the figures which appear in AE 6; there is no doubt about that, is there?—There is a doubt in my mind; in our view AE 6 is a test.

661. Yes, but what I am putting to you is this: You put forward AE 5 as your main method; you said you put forward AE 6 because it was a method which is beloved of Objectors, but in fact you have taken one line of your figures in AE 5 straight out of AE 6, have you not?

(President): Exhibit AE 5 is not put forward as the main method of calculating the contribution to Central Charges, Mr. Goff. It is assuming that you know what the contribution to Central Charges will be apart from additional outlay and how that will have to be increased because of additional outlay.

662. (Mr. Goff): It certainly starts from the basic £6.0m.; but it is put forward as the main method of calculating it over subsequent years. (To the Witness): What I am putting to you is that it is not independent of AE 6, because in one line of your calculation you take your figures from, and assume the accuracy of, AE 6, and that must be right for 1962, must it not?—No, I do not think it is right. What we have in fact taken the £7.5m. from is AE 5.

663. I am sorry; what figure of £7.5m. are you referring to?—If you look at the last line of AE 5, line 12, we arrive there at Central Charges of £6.1m., £6.3m., £6.8m. and £7.4m. For the purposes of settlement between ourselves and the Commission, those figures are rounded to half-millions in this way: 1959, £6m.; 1960, £6½m.; 1961, £7m.; 1962, £7½m.

664. Are you saying that you have a provisional agreement with the London Transport Executive for 1962?—No.

665. So there is no question of rounding off the £7.4m., is there?—Yes.

666. Because you have not yet agreed it?—No, but we expect, in the light of such figures as we have available, that it will be £7.4m., to be rounded at £7½m.

667. Now coming back to the point, which is line 7 and not line 17, in line 7, as an integral part of your calculation in AE 5, you have taken £1.4m.?—Yes.

668. That comes, does it not, straight out of AE 6, and it is arrived at by deducting from the £8.9m. in column 10 the £7.5m. in column 14; is that right?—No.

669. Then where does it come from?—It came from AE 5 or a similar table.

670. It did not come from AE 5; it is the figure in AE 5. I am asking you where you got the £1.4m. to put into line 7 of AE 5 for 1962?—That does not prevent its coming from AE 5.

671. Where did the £1.4m. come from out of AE 5?—£1.4m. is the estimated revenue margin for 1962 after deducting £7½m. for finance charges.

672. Is it not just what Mr. Hill has done at line 4 of SWH 8? He has taken Central Charges into his calculation; it is quite permissible, and we have done it.—Permissible for what purpose?

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[Continued]

673. But what you have down for 1962 is the figure of £1.4m, which I suggest to you is taken out of AE 6, from the two columns I have mentioned. What you are saying is that it is coincidence that those two columns are the same, and that you get your £1.4m. by some different calculation?—The different calculations are not independent; they use a great number of figures in common, but one could construct AE 5 without using AE 6 at all.

674. Would you necessarily get £1.4m. in that line if you did?—I think so, yes.

675. And did you construct it independently or did you take the figure from AE 6?—I did not in fact take the figure from AE 6.

676. From where did you get the £7.0m. which appears in line 8 of AE 3 as Central Charges for the future year?—That is the figure for 1961 as shown in AE 5. It is there shown as £6.3m., which as I explained, as between the Commission and ourselves, it would be rounded up to £7.0m.

677. Was that figure not in fact taken from AE 6?—No, it was not, Mr. Goff.

678. Would you just look at page 28 of the Third Day of the present transcript; this is in the first column, just above the middle of the column on that page: "Now we compare the figure in Exhibit AE 6 with those in Appendix C of the previous proceedings at page 500?—Yes. The original Exhibit PJ 16 showed that Central Charges in 1959 would be £6.3m., in 1960 £6.5m., and in 1961 £6.9m., or £7.0m., according to which way the figure is rounded. Having prepared Exhibit AE 6, using slightly amended figures, I estimate that Central Charges in 1959 will be £6.2m., and in 1961 £7.0m. Again there is very little difference between the figures shown on Exhibit AE 6 and those shown on the earlier estimate. (Q) In the case of both methods of approach as shown in Exhibits AE 5 and AE 6, have you extended your calculations to 1962?—Yes. I have taken the tables down to 1962 on the same basis, and the main submission—the basis which was described in 1959 as the main submission—indicates Central Charges of £7.4m. in 1962. The specific approach basis points to Central Charges at £7.5m. or £7.6m. in 1962. (Q) And in Exhibit AE 3 at item 8 of column 3, you have shown Central Charges at £7.0m. for the future year; is that figure based upon the calculation for 1961 which you have just outlined?—Yes. It is in fact the estimated Central Charges for 1961, and does not go beyond that". When you answered "Yes" to that question, were you not saying, although you may not have agreed, that it was the figure of £7.0m. which you have just explained was calculated by the specific approach method starting in Appendix C and carried on into Exhibit AE 6?—No; I was saying that we had brought into AE 3 the estimated Central Charges for 1961.

679. "Is it based upon the calculation for 1961 which you have just outlined?", and your answer was "Yes". The outline "which you have just outlined", I gather, was AE 6. You are saying the figure is having regard to both AE 5 and AE 6 taken as an estimated figure?—It is the figure which we have provisionally agreed with the Commission for 1961, which is arrived at by means of AE 5.

680. I have very little more on AE 5. Would you agree that one of the things upon which the accuracy of the calculation depends is the accuracy of lines 1, 2 and 3. The gross capital outlay, the deduction realisations, and the net capital outlay?—Yes.

681. Would you tell us generally the nature of what the money was spent on in 1960?—Yes. About £9m., a figure of £8.7m., was spent on railway and bus rolling-stock and in the conversion of trolley-bus depots to oil-bus operation. There were further large expenditures on the four-tracking of the Metropolitan Line between Harrow-on-the-Hill and Watford South Junction, and on the electrification of that line from Rickmansworth to Amersham.

682. That covers 1961, does it?—Those are the biggest items.

683. Can you give an indication of the schemes budgeted for in 1961 in the £14.7m.?—Yes. Again—and the same is true of 1962—the large majority of our capital expenditure is on the purchase of railway rolling-stock and buses. Those replacements are now going on.

684. Is there any other large item in either of those years?—The four-tracking to which I referred will still be going on in 1961, and there will be considerable expenditure in 1961 and 1962 on the modernisation of the distribution of electric power.

685. That is transformers and boosting stations, I suppose?—Sub-station, high-tension cables and low-tension cables.

686. Has any provision been made in the budgets for 1961 and 1962 for increased revenue from this large capital expenditure on various improvements and reconstruction?—There is no budget for 1962.

687. There is a budget for 1961?—There is a budget for 1961.

688. Has an allowance been made for increased revenue from these improvements as distinct from getting it by increasing fares?—No.

689. You have taken the expression "future year" as a year which is more or less based on 1961, but treating everything as if it fully operated in the year whereas, in fact, some of the things only operate for part of the year?—That is not quite an accurate definition of "future year".

690. I tried to summarise it; perhaps it is too summary?—Yes, I think it is a bit too short. It is a year which is based on 1961, but in which we have given a full year's value to certain increases in costs which will only begin to incur during 1961.

691. And you have allowed for the full yield of increases which only begin in that year?—And we have allowed for the full yield of increases which can only begin to operate during that year.

692. In the future year did you take into account increased revenue from this capital expenditure?—No.

693. You expect to get it, do you not?—No.

694. Why not?—The only item of this capital expenditure which is expected to produce additional revenue is that from the four-tracking and electrification of the Metropolitan Line and the re-equipment of that line with new railway rolling-stock, and even that increase in revenue is not expected to fructify for some years.

695. When you say "some years", can you give me an idea what that means—two years, three years, or 10 years?—I think two or three years.

696. But you ultimately expect to get increased revenue from that source?—It is rather a moot point. The population served by that line is expected to grow and we expect to get additional traffic on that line, but whether the increase which we are expecting comes from the re-equipment of the line or whether it must be said to come from the additional population, I am not quite clear.

697. The additional population, of course, brings increased revenue, but you do expect that you will get increased revenue apart from that, do you not?—I would not like to try and disentangle the two.

698. (President): You may, perhaps, expect or hope that you will not lose any more revenue?—We do, in fact, hope to carry some more traffic on that line.

699. (Mr. Goff): And if you carry more traffic you will get more revenue?—Yes.

700. (President): Is not that referred to in line 13, the future year as compared with 1960?—No, Sir; I am afraid there is no reflection of that in that figure. It is probably two or three years hence we are thinking of.

701. (Mr. Poole): Was a small increase in revenue not expected by Mr. James as a result of the new coaches on the Piccadilly Line?—I think not, Sir. I think we expect to get some economies in working expenses from the new railway running stock, we also expect to be able to alleviate the present discomfort of the passengers; but

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[Continued]

I do not think we have ever held out that we would carry any more traffic as a result of the re-equipment of those two Tube lines.

702. (Mr. Poole): *A propos* of that, you may not know the answer to this question, but is it intended to continue the policy of not shortening your trains in the middle of the day? I notice that you have gained a certain amount of benefit from retaining the full-length trains during times when they used to be shortened.—Yes. We did abandon the policy of shortening the trains on the Central and Piccadilly Lines last year.

703. Is that going to be a permanency?—So far as those two line are concerned, I think we would regard it as a permanency, yes. But Mr. Harbour is very much better able to answer this than I.

704. He would be the appropriate person to answer that question?—Yes, I think so.

705. (Mr. Goff): On the other side of the picture have you made an allowance in the budget for 1961 for reduced expenditure resulting from this capital expenditure—reduced working expenses?—No, I do not think we have. Certainly we have made no specific allowance. We have not, shall I say, reduced the budget of expenditure in 1961 because we shall be getting this new equipment into operation.

706. Have you reduced the budget for a future year on that account?—No.

707. Is it not likely that you will, in fact, get reduced expenditure by operating this new equipment?—We shall get reductions in certain expenses, and we shall get increases in other expenses.

708. By increases in other expenses, do you mean depreciation at higher rates because they are new things?—That is one aspect of the matter. If I may break it down in that way, we shall get reductions in working expenses and increases in depreciation, but within the working expenses, again, we shall get increases in some items and reductions in other items.

709. Why do you get increases in working expenses from new equipment?—Well, you get this sort of thing, Mr. Goff, that the new railway equipment will have a higher proportion of motors than the existing stock, and therefore they will use more current.

710. It is using increased current?—Yes. Moreover, of course, we have increased the length of a lot of our trains. We run eight-car trains now where formerly we ran seven-car trains. We are running six-car trains on the Circle Line where formerly we ran five-car trains. We are increasing the District trains from six cars to eight cars, and all the demands more current.

711. Balancing one with another, do you expect that you will get a net reduction in annual expenses by this capital expenditure?—Eventually I think we shall get a net reduction in working expenses as a result of the re-equipment.

712. How soon do you think it will be before you feel that benefit?—I am afraid it is not quite as simple as that. We shall feel the additional expenses, that is to say the additional cost of current, immediately the stock goes into service. The economies that we shall make are mainly in reduced overhaul expenses which will probably not accrue to us for five or six years.

713. But when that stage is reached, I gather you say you think the balance would be in your favour?—As far as railway rolling-stock is concerned, the balance of working expenses, leaving depreciation on one side, is likely to be in our favour.

714. Taking it by and large, I gather you say that the thing would more or less balance; you would not get any benefit and you would not suffer any substantial increase in expenditure?—If by "by and large" you include depreciation, no, we shall incur additional expenditure or additional costs.

(President): I am glad of that correction.

715. (Mr. Goff): Depreciation is allowed for in your AE 5, is it not? Does that allow for increased depreciation

by having more valuable new things?—Yes, it is allowed for there as a source of capital.

716. In the depreciation item in AE 4, the depreciation of rolling-stock No. 8, you have the future year plus or minus as compared with 1960?—Yes.

717. Does that allow for the increase to which you have been referring?—Yes.

718. So far we have been discussing AE 5 and Mr. Hill's capital apportionment tables which were SWH 4 and SWH 5 in 1959 carried on by SWH 1 and SWH 2 at the present Inquiry. I now want to go to a different subject-matter, and that is your AE 6. That had its origin in PJ 16, did it not?—Yes.

719. And PJ 16 was, in fact, put in by the Commission?—Yes.

720. First of all, I want to see if we are at one as to how our SWH 3 and SWH 4 on the one hand compare with Exhibit PJ 16 and AE 6 on the other, just as a matter of mechanics apart from whether you agree the difference of treatment, just to see we are thinking alike as to what SWH 3 and SWH 4 of the present tables are showing. Perhaps it would be convenient if we compared SWH 4 put in to-day with AE 6. The first column is obvious, that is the year. The second column in SWH 4, "Interest on capital obligations": That is the comparable column with interest on capital obligations, column 1, in AE 6?—Comparable, although their content is quite different.

721. The content is quite different because of the matter we mentioned on Monday which I will discuss again, namely the way in which we deal with the £38.8m. Trust Fund?—Yes.

722. But subject to that, both columns are dealing with interest on capital obligations, whatever they are?—Yes.

723. Then column 3 in SWH 4, "Balance in hand at beginning of year": These are all sub-columns of "Interest on capital balances", and I find no counterpart of that in AE 6, because that is the interest on what remains from time to time unexpended starting off with the £38.8m. as a separate account?—That remains unexpended on Capital Accounts, not "remains unexpended".

724. It is the balance which remains in hand after debiting capital expenditure for the year against the £38.8m.?—Yes.

725. You appreciate what column 3 is SWH 4 shows, and it has no counterpart in AE 6?—I agree.

726. Then "Capital expenditure in year less internal provisions": That is the combined effect of Paragraphs 2, 3 and 4 in AE 6. We have put that into one column, "Capital expenditure in year less internal provisions", and in AE 6 you have got gross expenditure in column 2, depreciation finance in column 3, and a net balance in column 4?—Yes.

727. In fact, the figures in column 4 and on SWH 4 are identical with the figures in column 4 of AE 6?—Yes.

728. Then column 5 of SWH 4, "Balance in hand at end of year": That, again, has no counterpart in AE 6, because that, again, is dealing with the separate treatment of the £38.8m?—I agree.

729. Then the interest column, column 6 of SWH 4: That is comparable with columns 5, 6, 7, 8 and 9 of AE 6, but you have several different rates and we have only one, again because of the effect which the separate treatment of the £38.8m. produces on our tables?—Yes.

730. Then the net revenue, column 7 of SWH 4: That is the same as column 10 of AE 6, and the figures are again identical?—Yes.

731. Then we come to Central Charges, interest, column 8: That is comparable with column 11 in AE 6, but it works differently as a matter of mechanics, again because of the separate treatment of the £38.8m.?—Yes.

732. Then: "Share of Central Expenses of B.T.C.", column 9 of SWH 4: That is the same as column 12 of AE 6, except that there is some disagreement between us as to the figures?—The intention is the same.

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733. Then: "Interest on accumulated surplus (Cr.) or deficit (Dr.)" in column 10. That is comparable with column 13 of AE 6, but again, of course, the figures differ because of the different treatment of the position?—And, I think, a different method of calculation.

734. And a different method of calculation, yes; there is a disagreement about half-year's interest. Then: "Total charges" in column 11 of SWH 4 is the same as column 14 in AE 6. That is a mere matter of addition of the other three columns in each case, and the result is different because the component parts are different?—Yes.

735. Then: "Surplus for year" and "Deficit for year", columns 12 and 13 of SWH 4, are combined together in column 15 of AE 6?—Yes.

736. And "Accumulated surplus of deficit", column 14 of SWH 4, is comparable with column 16 of AE 16?—Yes.

737. Then the last column of SWH 4 has no counterpart in AE 6, and that, again, is born of the different initial treatment of the £38.8m.?—Yes.

(President): It is not the initial treatment merely of £38.8m., it is the initial treatment of the £41m., is it not?

(Mr. Goff): Yes. I said £38.8m. because I was going to deal separately with the other items, but I agree, with respect, it is £41m.

(President): I think, Mr. Fay, you referred to this as the "dowry", did you not?

(Mr. Fay): I do not claim credit for inventing the term, but it has been used, yes.

(Mr. Goff): I have not been in this before. Did the "dowry" refer to this £38m., part of the £41m., or did it refer to an interest item which came in?

(President): I do not know. I do not think we need pursue it, but I think it referred to the Trust Fund transferred under Section 27.

738. (Mr. Goff): Just as a matter of result, if the present SWH 4 be right, then you do get £63m. as the total Central Charges for 1961 instead of £7m. as appears in AE 6; that is to be found in column 11 of SWH 4 and column 14 of AE 6?—Yes.

739. And, similarly, you get £6.8m. total charges for 1962 as compared with £7.5m.?—Yes.

740. I am going to put this as a general suggestion first, and then I will consider the details. I suggest to you, having regard to our SWH 1 and SWH 2 which we discussed at great length during the morning, and SWH 4 at which you have just been looking, the estimate of £7m. which you have put in for 1961 is at least £0.5m. too high?—I do not agree.

741. Then I want to consider the points of difference between us on SWH 4 and AE 6 which were canvassed at some length on Monday, and therefore I will endeavour to go through them shortly; but as you had only just seen the tables, it is right that we should have a look at them again for a moment. Taking the £38.8m.: Whether that is called a "dowry" or whatever it is called, that was a Trust Fund which was acquired from the London Passenger Transport Board, was it not?—Yes.

742. And in that sense you would agree that it was London money?—Originally the money came from London.

743. When the undertakings were acquired Transport Stock was given for the whole undertakings according to their value, including the value of the Trust Fund. The amount of Stock was not in any way reduced because part of the assets were a Trust Fund?—No, I do not think so.

744. In those circumstances, would you not agree that the proper method, when you are seeking to treat London as a separate entity and to find its contribution to Central Charges, is to apportion the whole of the stock which was issued and to treat this Trust Fund as one of the assets acquired by London, and, therefore, to deal with it as in SWH 4?

(President): Ought not that to be in two questions? Whether it should be treated as an asset acquired for London is one question, and the next question is whether it should be treated in the way in which it is treated in SWH 4 and not in the way in which it is treated in PJ 16?

745. (Mr. Goff): I agree it may have been a rolled-up question. (To the Witness): You agree that the right start of the matter is to apportion between the rest of the Transport Commission and London the whole of the Stock which was issued to acquire the whole of the undertaking?—As a first step, yes.

746. And then to treat the Trust Fund which was acquired from the Passenger Board as an asset belonging to the notional separate London entity?—No, no more than any other asset that formerly belonged to the London Passenger Transport Board.

747. But, you see, the way you have done it is this: You have not apportioned the whole of the stock issued, because you have reduced the amount by the value of this Trust Fund?—Yes.

748. So that you have departed from what you agreed was the proper first step?—No. I think we apportioned the whole of the Stock in the first instance, and, as a second step, we have deducted interest on the Trust Fund moneys on the assumption that to the extent the Trust Fund moneys were available the Commission would be able to avoid borrowing.

749. But that fixes the earning capacity of that money at 3 per cent., does it not, the rate which is charged on the Stock?—The rate which would have been payable on the Stock if they had to issue it.

750. But it is not a question of "would have been", it was payable in fact; the Stock was issued.

(President): But not payable by the London Transport Executive or by a notional body, payable by the Commission.

751. (Mr. Goff): The interest on the Stock was payable by the Commission at 3 per cent?—On the Stock that was issued.

752. If you apportion the whole of that Stock, then London is charged with 3 per cent. on the appropriate part of that Stock?—Yes.

753. And if you then say: "We will set off against that interest at 3 per cent.", you fix London's liability at 3 per cent. on the Stock and you give them the benefit of the money at 3 per cent. only, and then further capital has to be borrowed at higher rates of interest and you get the 4, 5 and 6 per cent. coming in later on?—Yes, the capital has to be borrowed at the rates prevailing at the time.

754. If you debit London with 3 per cent. on the full amount of the Stock which is issued, or on its appropriate share of the full amount of the Stock which is issued, you get the full debit there. Then you credit 3 per cent. on the Trust Fund, and when you borrow you merely reduce the Trust Fund, you do not start paying interest on borrowing at a higher rate of interest until you have exhausted the Trust Fund, do you?—The Trust Fund disappeared on the 31st December, 1947.

(President): I think, you know, one can go on for a long time with this, but surely once you create in your mind a notional body you can attribute to them all sorts of notions, can you not?

(Mr. Goff): Indeed, yes.

(President): The notion behind Mr. James's table—and Mr. James did not like his table himself very much—was that this notional body, finding itself with liquid resources of £38m. or £40m., thought it would be a good thing to go into the market and buy a certain amount of Transport Stock, because someone had said to it: "You will be responsible for the interest on the £128m. of Transport Stock". Mr. Hill says: "No, my notional body would not do anything so foolish, they would invest it in sound securities and use it for their purposes as time went on". But I can myself think of other notions. Once you get a notional body it is only a question of what hard facts

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you choose to attribute and how much you draw on your imagination. We know that, in fact, the people then running this Undertaking, the London Transport Executive, had no say whatever about the £38m. We know that by looking at their obligations and we are really in the realm of imagination, are we not?

(Mr. Goff): Well, Sir, that is, of course, a difficulty inherent in the problem. I have put my view to this Witness, and he does not agree with it. You have shown that the Tribunal are fully seized of the two points, and so I think I can leave that particular matter for argument hereafter.

(President): I think so. While you are talking about it, there is an error which has, no doubt, been corrected in your copy, in SWH 5. It is a mere matter of a drop of a decimal point. If you look at the notes on column 2, in the third line there is a reference to "Less interest on", and in my copy it is £344m. The real figure is £34m.

(Mr. Goff): I understand it has been corrected on the print, Sir. I will not say anything further about the £38.8m. in view of what I have said so far.

(President): I would not like to construct a notional table, but one might say with the advantage of hind-sight that this notional body would have looked at the Stock Exchange Gazette and chosen a good growth Stock and put £38m. into it, and then they would really be in clover.

(Mr. Goff): I do not wish to argue it at this stage, but in conjuring up a notional picture one has to paint the picture with fair colours. I will develop that in due course in my argument.

(President): Fair or black colours.

(Mr. Goff): One side may try to paint it with black, but I submit it ought to be painted with fair colours. So much for the £38.8m.

(President): What impresses me, really, is that the differences are so small.

755. (Mr. Goff): They are not enormously large, but they do make a difference of something of the order of £0.5m. or more, and that will be important in considering the proposals which we are putting forward for calculating fare staging and half-mile stages. I am not pressing this merely as an exercise to see if I can reduce it, but I am pressing it because I think it is directly germane to the case I desire to present. (To the Witness): If you look at the note to column 3 in SWH 5, you there have a little reconciliation table to show why we took £41m. instead of £38.8m.—Yes.

756. I did put this to you, but I will put it formally again: Is that not the fairer way of dealing with the matter: The net current assets of the London Passenger Transport Board which were taken over, subject to a proper allowance for working capital, should be treated as money available in the hands of notional London to meet its capital expenditure, and it should not be charged with borrowings until the net current assets it acquired have been worked off. Would you not say that was fair?—Yes.

757. You would say it was fair?—Yes, if there were excessive current assets in the hands of the L.P.T.B.

758. When you say "excessive", do you mean if they were more than they required as working capital? . . . or had "excessive" some other significance?—No, more than they required.

759. Then we allow for working capital £1.3m., as appears in the note. Do you agree that that was a reasonable amount?—"Was"?

(President): "Would have been".

760. (Mr. Goff): Would have been if it had been a separate entity?—No.

761. Mr. Hill says that it is not only reasonable, but more than adequate; you would not agree with that?—I do not agree with that, no.

762. But having agreed that if there were excess current assets it would be a fair method of treatment if the figure of £1.3m. was accepted as being a proper allowance in

respect of working capital, it would be fair, would it not, to deal with the £3.5m. in the way in which we have dealt with it; that is to deduct the £1.3m. and to treat the difference as something available to answer borrowing?—In general, yes.

763. This is an undertaking, of course, which collects revenue daily and sometimes in advance?—Yes.

764. It gets it in advance from season-ticket holders?—Yes.

765. Incidentally, that is one reason why it is a good thing to have season-ticket holders, is it not?—There is a fractional interest benefit in the purchase of season tickets, yes; but I think it is very small.

766. It is the fact that this is an undertaking which collects revenue daily and sometimes in advance?—It collects revenue daily. I do not know why the fact that we are collecting certain revenue in advance is of any relevance.

767. The relevance I am suggesting is that an undertaking of that character needs rather less working capital than if its revenue came in in arrears and not daily, came in more at intervals. Would you agree with that?—Yes, as an absolute matter; but we were in the position of receiving revenue in advance in 1948, and we always have been in that position; it has not varied.

768. I agree; but that being the position, you would agree that that is a factor to be considered when you are considering what is required for working capital, and it is a factor which tends to lessen the amount required?—Yes, I suppose it tends to lessen the amount required. There are similar items in the other direction which tend to increase the amount required.

769. I think when I put this to you on Monday you said that there was an inconsistency in the treatment of the £0.37m. in SWH 5, Note 2; do you remember that?—I suggested, Mr. Goff, that as the Trust Fund had been acquired by the Commission for Stock, and as the Joint Lines' assets had been acquired by the Commission for Stock, and as they had been, as it were, switched over in the sense that the cash had been taken from London and the Joint Lines' assets had been vested in London, that there might be a good case for setting those two off against one another.

770. I thought you said that Mr. Hill was being inconsistent in his own methods and in the way in which he treated this £0.37m. in Note 2. Anyway, you do not say that any more if you ever said it?

(President): The difficulty about that figure, to my mind—which I do not think can possibly be resolved—is to find out how much of the total Stock issued to the various Main Line Railway Companies ought to be attributed to the bits and pieces which were eventually managed by London Transport Executive.

(Mr. Goff): I agree, of course, that is the basic difficulty.

(President): We know the book value.

(Mr. Goff): I was dealing with the question of principle at the moment.

(President): Perhaps we might adjourn now.

(Mr. Noakes): Sir, I have been here for the whole of this morning fascinated by the discussion but not really professionally interested, merely waiting to question Mr. Dickson in case he reached the witness-box this morning. I now understand that although Mr. Dickson comes next in the order of batting, it is desired to put Mr. Harbour into the witness-box following Mr. Evershed. I am not interested in Mr. Harbour, and, in those circumstances, I wondered whether it would be in order if I did not attend this afternoon? I shall only be three minutes' away if for any unexpected reason Mr. Harbour's wicket should fall more rapidly than anticipated.

(President): You just want to cross-examine Mr. Dickson?

(Mr. Noakes): He is the only witness I am concerned with.

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(President): Then we will arrange to hear Mr. Dickson at some time to suit you, Mr. Noakes

(Mr. Noakes): I am much obliged, Sir.

(Adjourned for a short time.)

(Mr. Fay): I wonder if I might mention a difficulty which Mr. Harbour is in tomorrow morning? He has been invited by the London County Council to attend the opening of an Exhibition in connection with transport at County Hall, and he is very anxious not to disappoint the London County Council. I had hoped that we might be able to find business to do tomorrow morning without the necessity of his presence here, and therefore I proposed to tender him for cross-examination when Mr. Evershed had been finished with by the Opponents this afternoon, and then I was going to ask permission to break off his evidence and put in Mr. Dickson tomorrow morning.

(President): I think that will be all right.

(Mr. Goff): There is only one slight difficulty about that. I have certain tables which I have to put to Mr. Harbour and they have been compiled, but there are certain revisions we desire to make to them and I was not expecting to have to use them until tomorrow morning. However, if they have to be used this afternoon perhaps the Tribunal would bear with me and allow them to be used subject to the reservation that some of the figures may not be correct.

(President): It might be better not to call Mr. Harbour next.

(Mr. Goff): That is what I thought was happening.

(Mr. Fay): I do not think Mr. Dickson would last more than half a day, and I would like to think we should not run out of business tomorrow morning. I should not think Mr. Harbour's cross-examination would be completed to-day if it is started.

* 771. (Mr. Goff): (To the Witness). When the Tribunal adjourned, Mr. Evershed, we were just discussing this £0.37m. item in the notes in SWH 5?—Yes.

772. The learned President pointed out the difficulty of estimating the true amount of stock which ought to be attributed to London in respect of London Lines taken over by the London Transport Executive. But subject to that difficulty, is this not an entirely logical and right way of doing it, because the Transport Commission issued an aggregate sum of stock for the acquisition of all the main line railways and some part of those were acquired on behalf of the London Transport Executive and, therefore, London should be debited with the interest on whatever is the appropriate proportion of the stock representing the London acquisition. Would you agree that that is correct?—Yes.

773. Was there not a sum of money of the order of £7m. interest which was taken over by the Commission which has not been brought into account on these accounts?—Interest?

774. Yes; it is a matter of which Sir Reginald Wilson spoke in the 1953 Inquiry at Page 102, Question 1440. He said he would be grateful to do something he had been requested, and then he went on: "At 31st December, 1947, there was in a Trust Fund on behalf of main line railways £107.3m. London Passenger Transport—this is 31st December, 1947 — was £40.6m. There were other receipts in the Trust Fund accounts which nobody has ever referred to. We have not been trying to keep it quiet, but nobody has ever referred to it. The interest earnings on the Trust Fund, which apparently belonged to nobody, were £7.1m. That gives you £155m. There were certain adjustments in the early part of the year, and according to the piece of paper I have in front of me the Trust Funds at 15th March, 1948, which were handed over to the Commission by the trustees, amounted to £151.4m. That is the cash side of it". The Trust Fund of £38.8m. which we have been talking about did not include that interest item did it?

(President): Which Trust Fund is Sir Reginald speaking about? He is talking about two Trust Funds, is he not?

(Mr. Goff): One of the Main Line Railways and one London Passenger Transport, and interest was received on the aggregate as I read it.

(President): I should have thought so, yes.

775. (Mr. Goff): That interest has not been brought into account at all either in AE 5 or AE 6 or Mr. Hill's calculations, has it?—As far as I know it has not.

776. So that if that were brought into account, that would give London the benefit of interest on that extra sum of money representing its share of the aggregate interest, would it not?—I think it might. I am not very familiar with the transactions that took place in 1948. Similarly, I suppose the "certain adjustments" referred to here would have the other effect.

777. When you say "certain adjustments", you mean the adjustments which reduced it to £151m. from £155m.?—Yes.

778. But the Capital Fund was £147m.?—Yes.

779. £107m. plus £40m., and that £151m. was received?—Apparently.

780. And London, in working out the charges, should have interest on a share of that balance of £4m., should it not?—I agree it looks as though we should. I do not really know.

(President): Part of the difficulty of dealing with London Passenger Transport Board assets is that there are very, very few copies in existence of their Financial Statement and Balance Sheet. We possessed one at one time.

781. (Mr. Goff): That is the difficulty as to the precise figure, undoubtedly; but it would appear there ought to have been an additional credit in respect of London for a share of this interest?—It would appear as though something additional were received by the Commission in 1948.

782. Of which a part ought to be attributed to London as this was interest on the two Trust Funds of which Sir Reginald was speaking.

(President): Well, I wonder? Was he? He speaks about interest on "the" trust fund. He said there were two Trust Funds and he then goes on: "The interest on the Trust Fund which apparently belonged to nobody were £7.1m.", and then he adds that to the aggregate of the two separate Trust Funds to get his total of £155m.

(Mr. Goff): True he said "trust fund", but he sets off by mentioning both funds and there would not be any point in that unless the interest arose from both. He deals with it as an aggregate in total.

(President): Then someone seems to have stolen £3.6m.

783. (Mr. Goff): Somehow or other, yes. They adjusted it in some way and reduced it to £4m. (To the Witness): Do you know anything about this yourself personally?—No, I am afraid I do not.

(President): If you look at a further question, Question 1433, a good deal of arguing went on with the Minister of Transport before they cleared it all up.

(Mr. Goff): It would have provided some people with a lucrative action in the Chancery Division; I might possibly have been engaged in a different place.

(President): It is not too late, is it, to trace this missing £3.6m.

784. (Mr. Goff): One does not know what happened to the missing £3.6m., but the balance of £4m. was undoubtedly received by the British Transport Commission, as far as one can gather.—Apparently, yes.

785. There are only, I think, two other small discrepancies between us on this question of the PJ 16 and AE 6 approach and our SWH 3 and SWH 4. One of them is the share of central expenses which we were discussing when the Tribunal adjourned on Monday afternoon. The difference there between us is only £0.1m., is it not?—Yes, in each year.

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786. In each year, yes. You described in detail the method which you have adopted recently, but down to 1957 in compiling PJ 16 that was simply on a 10 per cent. division of the aggregate central charges, was it not?—Yes.

787. That is right, is it?—That is substantially right, Mr. Goff. There may have been some central charges that we left out, but I think that is substantially right.

788. Mr. Hill also worked on a 10 per cent. basis during those years, and the figures do not tally from 1948 to 1957.—No.

789. Do you think in working out PJ 16 any items which were not really central expenses at all were included?—No, I do not think any items that were not central expenses were included.

790. Such as a write-off in 1949 of road haulage stores?—No.

791. They were not included?—No.

792. Can you account at all for the fact that, both working on a 10 per cent. basis, there is that discrepancy in the share of central expenses down to 1957?—Yes, I think I can, Mr. Goff. There are three main differences, I think, between us and Mr. Hill which for convenience I could perhaps refer to on the present SWH 6. The first difference between us is at line 3 in the year 1948. We have included there an item of stock issue expenses amounting to £384,000 which Mr. Hill has shown on his SWH 7 at line 18 but has not brought that figure over into SWH 6.

793. That is the first difference?—Yes, that is one of the differences between us.

794. I think you have seen others?—Three others, yes. That £384,000 included the expenses of issue of British Transport Stock although those words are missing from the description of it in Mr. Hill's SWH 7, and I thought it likely that London Transport ought to have borne at least a proportion of those expenses since the stock was issued for us as much as for anybody else.

795. That was overwhelmingly not an expense in relation to stock, was it not?—I do not know, Mr. Goff. I am afraid I know no more about that figure than is given by the description.

796. Let me put something to you which I am instructed is the Railway Accounts for 1948. I do not know whether this is in the hands of the Tribunal?

(President): Are these the Transport Commission Accounts?

(Mr. Goff): Yes.

(President): I do not know whether we have the 1948 Accounts.

(Mr. Goff): I will read the passage in question.

(President): Is it in the notes on the Accounts or in the actual Accounts?

797. (Mr. Goff): It is in the notes on the Accounts at page 194. The heading is "Transfer and acquisition expenses and expenses of issue of British Transport Stock. Certain expenses were incurred by the Commission in connection with the transfer of vested undertakings, mainly in respect of proceedings before the Transport Arbitration Tribunal. Further expenses arose in connection with the acquisition of road haulage and other undertakings during the year, including the fees of accountants, solicitors and valuers. A proportion of the Bank of England's charge as Registrar of British Transport Stock has also been allocated to this head, as representing the expenses incurred in connection with the initial issue of transport stock. All these amounts have been written off in the 1948 Net Revenue Account."

(President): There will be an actual Account.

(The Witness): It appears on page 181, Sir, I-2.

(Mr. Goff): The Accounts are at page 181. It is not broken down. It merely appears as £384,259.

(President): Described as what?

(Mr. Goff): Described as "expenses in connection with the transfer of undertakings, and the acquisition of undertakings by, the Commission and expenses of issue of British Transport Stock".

(President): And the figure is £384,000 for that year?

798. (Mr. Goff): Yes. In the 1949 Accounts there is a similar note at page 169, note 48: "The main expenses incurred during the year under this head" — that is "Transfer and acquisition expenses and expenses of issue of British Transport Stock"—"relate to the acquisition of road haulage and other undertakings and cover the fees of accountants, solicitors and valuers. A proportion of the Bank of England's charge as Registrar of British Transport Stock has also been allocated to this head". So that the main part of that item had nothing to do with London, had it?—The main part of that item in 1949, apparently, does not relate to London Transport; but there is no such qualification about the figure in 1948.

799. In the previous year the note is that certain expenses were incurred in connection with the transfer of the undertakings, mainly in relation to proceedings before the Tribunal, and further expenses arose in connection with the acquisition of road haulage and other undertakings.—It is the last part of the sentence, I think, Mr. Goff.

800. "... including fees of Accountants, solicitors and valuers"?—I thought it went on to speak of the expenses of the issue of stock.

801. Indeed it does in both instances: "A proportion of the Bank of England's charge as Registrar of British Transport Stock has also been allocated to this head as representing the expenses incurred in connection with the initial issue of transport stock". It is a small item anyway, is it not?—It is an item which we brought in and which Mr. Hill has not brought in.

802. I will not pursue that further. May we go to the next one?—Yes. The next item on SWH 6 in question is item No. 7, again a very small one, compensation to staff. Mr. Hill has brought that in, we have left it out.

803. So there he has charged London with a little bit more?—He has brought it in as a central charge, we did not bring it in.

804. Have you any other points of difference?—Yes. In line 10, miscellaneous receipts credit, we have excluded that altogether because such part of it as came from London Transport is already included in London Transport receipts.

805. We put it in because it appeared in the Accounts. We did not know what that was, that is why we left it in. You say the part from London is already in their receipts. What were these miscellaneous receipts?—So far as we are concerned, they are mainly car-parking fees and fees for the use of our garages by other undertakings.

806. You say they are already in the receipts?—Yes. I am reminded I should have said they are already included in the net revenue and not in traffic receipts.

807. (President): I can recollect myself asking Mr. James about the divergence between his net receipts figure and the Accounts and he explained that there were some miscellaneous amounts which he had taken into account.—Yes. He brought them in specially for the earlier years in PJ 16, but only for the earlier years because they are already included in respect of the later years.

808. (Mr. Goff): You said you had included them. Do you say they were not included in the earlier years but only in the later years?—They needed to be brought in specially in the earlier years because they were not included in our net revenue.

809. So your answer that you left them out because they were already included in the net revenue does not apply to all the years?—It does, in effect, apply to all the years. They were either already included or we have increased the net revenue so as to comprise them.

810. I see. Is there any other explanation of the difference between you when working on the same percentage?—Yes, there is line 13, profit or loss on sale of investments, sometimes profits and sometimes losses.

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[Continued]

Mr. Hill has brought those in as increases of central charges where they are losses and as reductions of central charges where they are profits. We have left them out altogether.

811. Would you consider Mr. Hill's method was right?—I would prefer not to bring them in myself. It is arguable.

812. It would be a legitimate way of doing it to bring them in?—Yes. I would prefer not to.

813. We are not worried about that.—It is very small in total.

814. Anyway, you say it is a legitimate method, though you would prefer not to do it?—I would prefer not to do it, yes.

815. (President): Where does it appear in the accounts?—IV-9, Sir.

816. It is the balance of the profits and losses; some years the balance is in favour of the Commission, some years it is against them?—Yes. In total over these 11 years there is very little in it one way or the other.

817. (Mr. Goff): Is that all the points of difference?—Oh, no. We have brought in the interest charge in respect of the Redemption Fund as an addition to Central Expenses. It is an item shown in the accounts on Table IV-7 at page 24. I think this is really part of Mr. Hill's line 1.

818. If you bring that in, you have to bring in the interest earnings figure as well?—Yes, we have brought interest in on the other side.

819. That is a bigger figure, is it not?—In later years; in earlier years it was, in fact, a smaller figure.

820. Have we got to the end of the list?—Not quite; there is one further item. Perhaps I should say at this point that we have then taken 10 per cent. of the total arrived at. We have then brought in one item which I think is peculiarly London Transport, an amount of £60,000—which is shown on what is now Table IV-7—the amount payable under the guarantee of interest on the Central London new Stock.

821. That, of course, is mixing methods, is it not? It is not taking an overall 10 per cent.; in part as to one item and in later years as to a number of items you allocate them fully, and then you take a percentage of the balance?—That is true. This is the specific approach.

822. It is a mixture, is it not?—We are ascertaining Central Expenses for the purpose of the specific approach.

823. Does that complete your explanation of the difference between the figures down to 1957?—Broadly it does; but I must say that we have a minor departure from that for 1958 and onwards.

824. I said down to 1957.—Down to 1957, yes.

825. In 1958 and 1959 I think you described your method of working in detail on Monday afternoon?—Yes.

826. There you were doing the same thing, but to a rather more marked extent, allocating certain items in full and taking a percentage of others?—Yes. I think, in fact, we only allocated one item of expense on an actual basis, and I think all the others were allocated on the 10 per cent basis.

827. That was Table IV-6 for 1959 at page 23?—Yes. We excluded from that table the fees of the members of the Area Boards, which we said is not applicable to London Transport.

828. That one excluded in total?—Altogether. We excluded for the moment the salaries, etc., of the members of the London Transport Executive, and we then took 10 per cent. of the remainder.

829. And then you brought the salaries back in full?—We brought the salaries back in full.

830. Then you also included, as before, the full amount of the guarantees on the new Guaranteed Stock?—Yes.

831. So it became two items in full, whereas formerly it had been one?—Yes. I did mention, I think—but I cannot find it—that we had not thought it necessary to go back and revise the allocation of Central Expenses for the years 1957 and earlier, because the refinements that we introduced really seemed to make very little difference.

832. Do you think if you had put in those two items in full, the £31,755 for the members' salaries and the £59,000 for the amount payable on the guarantees, it would be more accurate to have taken 9 per cent. of the balance rather than 10 per cent?—No; that does not determine the percentage which you applied to the remainder.

833. We suggest, in any event, that 10 per cent. is too high after 1957, and a fair figure would have been 9 per cent. having regard to the size of London Transport Executive compared with the rest of the undertaking.—10 per cent. is too high on your figures, it is right on my figures.

834. Why is it too high on ours and right on yours?—Because you say Central Charges are only about £5.3m. out of a total of £61m., I say Central Charges are about £6m. out of a total of £61m.

835. The percentage is used to find out what the Central Charges are, is it not?—No; this is for the purpose of finding out what the Central Expenses are.

836. Would you mind repeating once more why you said that 9 per cent. was right for us and not for you?—Because I think your Central Charges for 1959 are put at £5.3m. out of a total of about £60m., which is roughly 9 per cent., and I put them at £6m. out of a total of £61m., which is 10 per cent.

837. You are considering what the percentage of the Central Expenses charged to London is on the total Central Expenses?—Yes.

838. What we were considering before was what percentage rate ought to be applied according to the respective sizes of the undertakings to split up the Central Charges.—I am sorry. I should have said I think we have both adopted this basis, that the ratio in which London Transport participate in the total Central Charges is a reasonable way of determining the ratio of Central Expenses they should pay.

839. Indeed; but we take the view that on the basis 9 per cent. is the reasonable amount of their participation, and that 10 per cent. is too high. Would you agree with that?—No.

840. Then there is this small question of the matter of computing interest. Your method is to charge interest in any one year on the whole deficit at the end of the previous year?

(President): This is Table AE 5, is it not?

841. (Mr. Goff): It is really AE 6. Sir, column 13, "Interest on accumulated deficit". (To the Witness): That is calculated, is it not, by taking interest on the deficit at the end of the preceding year and on the mean increase in deficit in the year?—Yes.

842. That does not take account of the fact that interest is paid half-yearly in arrears?—Interest is not paid at all in this case.

843. Why do you say it is not paid at all?—There is no payment of this interest.

844. It is a calculation.

(President): It is a notion.

845. (Mr. Goff): But it is after bringing in a share of Central Charges which consists, in the main, of interest which is paid, and is paid half-yearly. The deficit is increased by reason of the payment of interest, is it not?—No. In the specific approach you are not concerned with when interest is paid.

846. Are you not? The deficit has been increased by reason of the actual payment of interest on the Stock and borrowing?—No, I do not think that is correct, Mr. Goff.

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[Continued]

847. Would you, as an example, show how the interest is calculated in any one of these years?—On AE 6, with pleasure.

848. Shall we take 1958?

(President): Then we would have to look back. Had we not better take 1959, because we do not know the 1957 figures separately.

849. (Mr. Goff): That would be wiser, Sir. (To the Witness): Let us take 1959.—To arrive at the charge for interest on accumulated deficit in 1959—I think that is the figure you want?

850. Yes.—That is a figure of £0.72m. To arrive at that one must go back to the end of 1958. There you will see we had an accumulated deficit of £17.17m., and the first step in this calculation is to charge interest on the balance of £17.17m. at the rate of interest applicable to the years in which the deficit accrued. That deficit of £17.17m. had been built up over a number of years, and the rate of growth had not been even; it has grown by varying amounts in different years when varying amounts of interest were prevailing.

851. You calculate interest on the £17.17m., which was the accumulated deficit at the end of the year, at the appropriate rate of interest during the time it was built up?—Yes.

852. That is the first step?—That is the first step. If we may just put that on one side for the moment, we then take half-a-year's interest on the figure of £6.03m., that is the net revenue for 1959; half-a-year's interest on the net interest on capital obligations and capital expenditure shown in column 11; half-a-year's interest on the share of Central Expenses, £0.65m. shown in column 12, and half-a-year's interest on the balance of deficit at the end of the previous year.

853. I think that completes the calculation?—That gives you added together the interest on the accumulated deficit shown in column 13.

854. Column 16, do you mean?—No; it is the interest on the accumulated deficit shown in column 13.

855. You are there taking interest on interest items, are you not?—Yes.

856. And therefore should you not take it on half the year's interest, because the year's interest is paid half yearly in arrear, so that you should take half a year's interest on half £6.03m. and not on the whole of it?—£6.03m. is the net revenue for the year. I am sorry; I do not think the dates on which interest is payable are very relevant. It may be paid half yearly on certain dates, but it accrues from day to day nevertheless.

857. But when you are charging it on the deficit, you do not have to provide it from day-to-day.—We do not have to provide it at all.

858. The British Transport Commission provides it?—Yes.

859. And it does not have to be provided until it is paid?—It is cumulative.

860. But that does not involve a cash outlay until it is paid?—That is so.

861. Therefore, when you come to charge interest on it, you should only charge it for half a year, because it is payable half yearly in arrear; you do not have to find any money during the first half of the year in order to meet interest payments. Is that not right, or do you not agree with that?—I do not really see its relevance. I agree that one does not have to find the money until the interest date, but you have to find it during the year of the interest date in order that it might be available on the interest date.

862. When you come to your half year's interest on the £4.84m. in Column 11 of AE 6, I put it to you that you should only take a year's interest on half of that, because that is interest on capital obligations and capital expenditure, and the Commission does not have to find any money to meet that interest commitment until the year is half gone, and therefore you should only debit interest on half the amount because there is no payment

due in the first half year?—I do not accept that. I consider that the interest obligation is accumulating all the time and it is reasonable to take the half year point—

863. I see, you proceed on the basis that it is accumulating; you do not have regard to the fact that it does not have to be paid until the end of the half year?—No.

864. I come now to another subject matter; you were dealing with the question of reserves—

(President): Where is that, Mr. Goff?

865. (Mr. Goff): I was going to give you the reference, Sir. It is at Page 28 of the Third Day, at the question about two-thirds of the way down the first column: "In column 3 of Exhibit AE3 for 1961, you have shown a margin of £2.1m. after meeting the Central Charges; do you regard that margin as optimistic? (A) I regard it as a little unrealistic. It is a theoretical figure; it is a theoretical figure which would be produced in a year when wage rates and fare levels were the same throughout. The position we have here is that there have been increases in costs which have given rise to this Application and which are already in operation; we are applying for increases in fares, some of which cannot come into operation until a later date, and for that reason I say that the future year is in a sense an imaginary year in which increases in wages and increases in fares have started simultaneously, and it is only in such a period as that that we shall in fact obtain the surplus of £2.1m. We shall not, for example, earn it in the calendar year 1961."

Then the question was put: "If costs rise in future, what effect would that have upon your surplus?—It must eat into it, because however much use we make of the quick procedure provided by Section 23 of the Transport Act of 1953, some period of time elapse before a wage increase can be met by authority to raise fares, and some further time must elapse after we have got authority to raise fares before we can in fact do so. (Q). Do you regard a surplus of £2.4m. as adequate for the purposes of the London Transport undertaking?"—"Is there some mistake there, Mr. Evershed, either in the question or in the transcript, or am I not following it? We started with a margin of £2.1m., and then you are asked whether a surplus of £2.4m. is adequate?—Yes, there is a misprint there. "£2.4m." in the last but one line of column 1 should read "£2.1m."

I do not suppose it is your fault at all—

(President): At any rate, it was not you, Mr. Goff; it was Mr. Crawford.

866. (Mr. Goff): It certainly was not my fault, Sir; I was in Canada! (To the Witness). When we come to the question of reserve, there is a note at the foot of Exhibit AE 3 on Page 43 of the transcript: "The accumulated deficit of net receipts in relation to Central Charges to the end of 1959 was £17.2m.". We make it a lesser figure on our reckoning, but until the deficit, whatever it is, is paid off, would those reserves do anything other than merely go to reduce that deficit if you had a reserve?—Yes; it would strengthen the finances of the Executive.

867. How would it do that?—Because it would mean, and reflect the fact that, we should be earning something over our bare expenses.

868. If London were earning something over its bare expenses and having a reserve year by year of £2m., or whatever it may be, would that in some way be allocated exclusively to London, or would it just go into the finances of the Transport Commission generally?—It would be allocated to London and it would be shown as reducing our deficit in the London Transport Balance Sheet.

869. Yes, and the only advantage it would secure until that deficit is wiped off would be a bookkeeping advantage of reducing that deficit?—Wiping off the deficit is exactly the same as building up a reserve.

870. But that is a deficit, of course, which is notionally allocated to London, is it not? London does not exist as a separate entity; it is a notional transaction throughout?—It is actually enough to appear in London Transport's Balance Sheet as apportioned.

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[Continued]

871. Indeed yes. Then what you are aiming at is not a reserve which would be a cash-in-hand reserve which you would use for some purposes, but one that you could set against an existing deficit?—There is no difference between them.

872. There is in practical administration, is there not?—No.

873. You say that there is no difference between an actual reserve which is a physical asset in credit and a revenue surplus which is gradually wiping out a deficit?—I do not think so, no.

874. I put it to you that it is a very different thing to have a reserve when you have no deficit; you have then actual money which you can use for improvements or for any other purpose, whereas if you have a deficit and you have a revenue surplus, you have not in fact any money which you can use, but you are merely reducing your deficit with a view of getting a better financial position in the future?—From one year to the next the effect is the same whether you are reducing a deficit or building up a reserve; it depends on what point you start from.

875. Very well; I have put that to you. In fact, briefly, since the Scheme was settled in 1959, owing to wage rises the London Transport Executive has found it very difficult to make its working expenses and anything over, has it not?—In 1959 and 1960 we indeed did have a surplus, a thing which we have not had since.

876. By getting an increase in the fares; after the 1959 Scheme was settled, you have had two Section 23 orders increasing fares, and now you are proposing still further increases as the third stage?—Certainly.

877. So that in order to get a surplus you have found it necessary to increase your fares twice and you now want to increase them a third time?—In order to meet our working expenses we have found it necessary to increase fares, yes.

878. Indeed. In those conditions do you not think that business policy demands that one's reserves should be kept to a minimum so as to keep the increase of fares to a minimum?—Our reserves are less than a minimum; they are a minus quantity.

879. But what you are aiming at is not a minus quantity but a plus of £2.1m.?—No; our immediate objective is a smaller minus quantity.

880. For which year?—For no particular year. We want to strengthen our financial position in such a way as to reduce the deficit, which has the same effect as building up a general reserve.

881. But the intention is to get a surplus of £2.1m., which appears from the passages I have just been reading?—That is an annual surplus.

882. And I am putting it to you that in conditions where you find it necessary to increase your fares three times in the period since 1959, you should aim at having the minimum possible surplus and not anything like as high as £2.1m.?—I regard £2.1m. as an absolute minimum.

883. These constant increases in fares do in fact injure your goodwill with the public, do they not?—I do not think I can answer that question, but if I did my answer would be no.

884. But in all your estimates of yield, you discount the estimated yield to cover loss of passengers, do you not?—Yes, but that is not necessarily the same thing as loss of goodwill.

885. You lose the passengers because people dislike the increases and therefore try to find alternative means of transport; that is the position, is it not?—If you put up the price of anything, you will sell less of it, Mr. Goff.

(President): Except cigarettes, Mr. Eversherd — and possibly gin.

886. (Mr. Goff): (To the Witness). But you are not merely selling something; you are providing a public service?—We are providing a public service.

887. And the object is to provide it for as many people as possible who want it?—And as cheaply as possible and as well as possible.

888. And if you increase your charges and thereby cause people to seek other means of transport, is that not really contrary to your objectives?—I do not think it is, no.

889. And is it not damaging your goodwill to cause people to be offended so that they seek alternative means of transport rather than pay your increased charges?—Not if we are thereby able to keep the undertaking in a healthy financial condition and keep it up to date so that it is a good service.

890. But you could do that if you had sufficient to pay your working expenses and for the improvements you have budgeted for, without having a surplus?—No, I do not think so.

891. I am putting to you that the surplus in those conditions is by way of a luxury?—By no means. A surplus of £2.1m. is in fact something which I think we shall never achieve.

892. You expect to achieve it by the increases proposed by the first, second and third stages, do you not?—No, I do not. My Table AE.5 shows that in 1961 and 1962 we expect to have surpluses of £1.1m. and £1.4m.; it is not £2.1m. in either year.

893. But that, of course, is bound up with what is the proper amount to allow for Central Charges, is it not?—Yes.

894. Yes, indeed. You say that you expect to have surpluses of £1.1m. in 1961 and £1.4m. in 1962; would you consider in all the present conditions that that would be an adequate surplus?—No.

895. Because I am suggesting to you that £1.5m. would be an adequate and reasonable surplus having regard to the conditions and having regard to the fact that you have already had to make the two Applications for Interim Orders and are now making a third Application?—Yes. I understand the suggestion, but I do not accept it.

896. We are going to propose as a modification of the third stage proposal that the season ticket rate and the ordinary fare rates should be charged with half mile fares and single stage charging when it comes to matters of buses and coaches, and I have Tables to put in on that. Is that a matter you would prefer that I should put to Mr. Harbourn?—If you please.

(Mr. Fay): I think my friend should possibly put the financial effect of this to this witness.

(President): Do you mean half mile stages throughout the Tables, Mr. Goff?

(Mr. Goff): We are proposing it throughout the Tables, Sir.

(President): Up to sixty miles in the case of season tickets?

(Mr. Goff): We would propose it throughout, but we have in fact calculated Tables up to eleven miles.

(President): Some Tables are going to be put in, are they?

(Mr. Goff): Yes, they are.

897. (President): I do not wish to inconvenience you now. (To the Witness): Meanwhile, so far as your mind is speculating on the goodwill of the public, do you think that that goodwill would be affected if the public knew that according to the most favourable estimates, they have been subsidised for the last ten years? I am looking at Mr. Hill's Tables which show accumulated surpluses and deficits and which show that since 1951 a deficit gradually going up and then going down a little and at the moment standing at £11.67m. in 1960. Do you think the general public knows that someone else has been paying £11m. of their fares during the last ten years?—No, Sir, I do not imagine that they know that, nor do I imagine that they would care very much!

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[Continued]

(President): No doubt they will be very glad to hear it.

898. (Mr. Goff) (To the Witness): If one adopted a system of half mile charging and single stage charging insofar as that was applied to season tickets, that would only affect London to the extent of the season tickets on London Transport Railways, would it not? London Lines has been advanced simply as a matter of assimilation?—I hesitated because there are through season tickets, as you well know, from London Transport to the London main line railways, and we share the season ticket revenue.

899. Have you Exhibit BH 28?—Yes.

(President): It is on Page 67 in the print.

900. (Mr. Goff): Yes, Sir. (To the Witness): Item 3 is: "Season ticket rates, including weekly tickets", and Stage B is the third stage, is it not?—Yes.

901. So that the increase sought on the third stage so far as London Transport Electric Railways is concerned is £150,000?—The net yield, yes.

902. So that any reduction consequent upon introducing half mile stages could not exceed that figure of £150,000?—Not on London Transport, no.

903. And then London Lines; that is £280,000, is it not?—Yes.

904. London Transport does not participate in that, does it?—No.

905. So the total advantage to London Transport of the proposed increase at the third stage of season ticket rates is £150,000?—Yes, I think that is right.

906. (Mr. Goff): I will have prepared for the Tribunal a copy of what I am examining from; it is a document I shall put in tomorrow. I had not intended to use it this afternoon, Sir, but I think I must put it to this witness, and I will see that you have it tomorrow. We are proposing to introduce a half mile charge on seasons, but the charge would not in any event be less than the existing scale except that the existing scale for five miles is £2 4s. 0d.; the existing scale for six miles is £2 9s. 0d.—

(President): Is that the 1959 scale plus the—

907. (Mr. Goff): Yes, Sir, as altered by the first variation. (To the Witness). The existing five mile rate is £2 4s. 0d.; we are proposing to make it £2 5s. 0d. The existing six mile rate is £2 9s. 0d. and we are proposing to make it £2 11s. 0d. But we suggest a five-and-a-half mile rate at £2 8s. 0d., which is slightly less than is payable for six miles.—You are in fact proposing to reduce the six mile fare?

908. We do, at five-and-a-half miles. Similarly, the six mile rate is £2 9s. 0d. and the seven mile rate is £2 14s. 0d.; we are proposing that six-and-a-half miles should be £2 13s. 6d.—Another reduction?

909. It is a reduction as compared with the seven mile rate which would be paid by a person who travels six-and-a-half miles.—It is a reduction on today's fare?

910. Indeed, yes, at those two points. Over and above that we do not propose at any stage to put in anything less than the present fare, but what we do suggest is that the increase at each mile should be half and that you should have a half mile charge, which would be half the difference between the mile below it and the mile above it. So that to take an example, the existing scale at seven miles is £2 14s. 0d. and at eight miles it is £2 19s. 0d.; we suggest that at seven miles it should be £2 16s. 0d., at eight miles £3 2s. 0d., and the difference is £2 19s. 0d. at seven-and-a-half miles, which is not less than the present eight miles. I think what I had better do is to hand you what I am reading from so that you will be able to see what I am putting to you. (Document handed to the Witness): You will see that column 1 gives the mileage; we do not make any difference until five miles. Perhaps if the Tribunal would take Exhibit BH 24, which is on Page 50, and look at column 6, they will see that it gives the existing rate, and column 11 gives the rate as proposed

by the Section 79 Application. We are not proposing to do anything until one gets to five miles, but at five miles one sees that the existing rate is £2 4s. 0d., and your Section 79 Application is £2 5s. 0d.—we do not propose to alter that. Your existing rate at six miles is £2 9s. 0d., and of course anybody who travels anything at all over five miles would pay the six mile rate, so that would be £2 9s. 0d.—Yes.

911. Your present proposal is to increase that to £2 11s. 0d.?—Yes.

912. What we are proposing there is to leave the £2 11s. 0d. as you suggest, but to interpolate a five-and-a-half mile scale, which would be £2 8s. 0d., and there you have a reduction as compared with the existing scale and the suggested scale, because the existing six miles is £2 9s. 0d. and the scale for five-and-a-half miles would be £2 8s. 0d.—Yes, I follow that.

913. Then you get the same thing from six-and-a-half miles to seven miles because the existing seven miles is £2 14s. 0d., so that anybody travelling six-and-a-half miles would pay £2 14s. 0d. You propose to increase seven miles to £2 16s. 0d., which we do not change; but we propose to insert a six-and-a-half mile scale at £2 13s. 6d., which would be slightly less than the present —

(Mr. Poole): At what mileage is your £2 13s. 6d. Mr. Goff—seven-and-a-half?

(Mr. Goff): It is at six-and-a-half miles, Sir. It is £2 13s. 6d. at six-and-a-half miles and £2 8s. 0d. at five-and-a-half miles. After that their proposed increases go up by miles and after that we do not suggest altering their Section 79 Application; but we do suggest putting in half-mile stages, which would be half the difference between the mile stages in accordance with the Section 79 Application. Taking the £2 16s. 0d. rate which they are asking for at seven miles; we do not propose to change that, or the £3 2s. 0d. rate for which they are asking at eight miles—these are taken from column 11 of Exhibit BH 24. We do not propose to change that, but we propose to put in a half-mile stage at 3s. 0d., which is half the difference between the £2 16s. 0d. and the £3 2s. 0d.

(Mr. Poole): How far do the half mile stages go?

914. (Mr. Goff): We have calculated them up to twenty-five miles, Sir. Thereafter it proceeds upon exactly that principle throughout. We do not suggest any alteration of the Section 79 proposals so far as miles are concerned, but we do suggest that they ought to charge for half miles an intermediate charge, which would be half the difference between the mile one lower and one higher. (To the Witness). Have I made that quite clear?—I have the Table here; I think I can understand that, Mr. Goff.

915. And you will see that apart from the two instances of the slight reductions from £2 9s. 0d. to £2 8s. 0d. at five-and-a-half miles and from £2 14s. 0d. to £2 13s. 6d. at six-and-a-half miles, our proposals would at no stage be less than the existing scale, and therefore if our proposal had effect given to it, apart from those two small points at five-and-a-half and six-and-a-half miles, it could only affect the yield at stage 3?—Yes.

916. And that appears from B.H.28, Item 3; the discounted yield is £150,000?—Yes.

917. In fact, of course, it would not reduce it by as much as £150,000 because you would not lose the whole of the yield by introducing these half fare stages, would you, because you would not lose the yield at the mile; you would only lose it at the half mile?—But I imagine that this sort of thing would cause a good deal of shortening of rides so as to get the benefit of the lower fare, and we should probably lose the lot; but I do not think that I can deal with these questions very well.

918. That is the difficulty I am in; I was going to put the whole of it to Mr. Harbour—And I think you would be right.

(Mr. Goff): I wonder if it would assist if I did not cross-examine Mr. Eversherd any more about this, but that I should put it to Mr. Harbour, and if any question arises

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[Continued]

which Mr. Eversherd can deal with, perhaps he could be recalled?

(Mr. Fay): Yes, I am quite satisfied with that; it is only when it affects his Tables that it comes within Mr. Eversherd's purview.

919. (Mr. Goff): Yes. Then subject to that, I will cross-examine Mr. Harbour on that, and we can have Mr. Eversherd back if anything arises on it. (To the Witness): I think there is only one other point with regard to which I shall have to trespass upon your time, Mr. Eversherd. In off-peak hours you very often run buses with very few passengers, do you not?—Yes.

920. Would it be fair to say that they are sometimes run empty?—Yes.

921. And that, of course, it's a very uneconomical thing to do, is it not?—Highly uneconomical, I should think; there is no return at all for that.

922. Have you considered whether it is possible to introduce any concessionary rates in off-peak hours?—That again, I am afraid, is a question for Mr. Harbour.

923. I have been instructed to put forward the suggestion that there should be concessionary rates in off-peak hours, and one suggestion made by the Edmonton Borough Council is that there might be concessions to old age pensioners for off-peak hours. You say that that is a matter for Mr. Harbour?—I should be glad if you would put it to him, yes.

(President): You mean a compulsory concessionary rate, do you, Mr. Goff?

(Mr. Goff): No, Sir; I think that is merely a suggestion put forward that they might adopt.

Cross-examined by Mr. MACLAREN

924. There are just one or two small matters of factual information about which I want to ask you, Mr. Eversherd. Could you look at your Exhibit AE 4? We have this figure of savings, including maintenance arising from mileage changes, £1.3m.?—Yes.

925. That is made up as to £1m. wages and £0.3m. other savings?—Broadly that is right, yes.

926. Offset against that is an increase in the level of overtime working because of staff shortage, which reduces the saving to £0.9m. in these figures; would it be fair to say that the increased level of overtime and rest-day working is related to the mileage losses through shortage of staff?—It is related to the mileage run in spite of the shortage of staff.

927. Of course it is; I put it unhappily. That is quite right; may I put it in another way: one of the effects of running the mileage you have run in the staff conditions of this year, 1960, was to increase the level of overtime working; that is right, is it not?—Yes.

928. That means, of course, that the cost of running the mileage as a result of the staffing position was increased by that amount, but there was also, resulting from your shortage of staff, in part, an actual mileage reduction which produced a saving?—Yes.

929. Is it fair to relate those figures at all, or is it quite ridiculous?—No, it is certainly not quite ridiculous, but I am not quite sure that it is fair to net them because the one could have happened without the other.

930. I follow; in other words, if your overtime and rest-day working had maintained your schedules, the £1.3m. would not have arisen apart from planned reduction?—Yes. You get that sort of position and also you get it operating in the other way. If, for example, our staff had not been willing to work this mileage, we would have had a reduced mileage and a reduced cost of operation, but not necessarily an increase in the cost of overtime working. There are three things here: the number of staff, the miles to be run and the miles in fact run.

931. And the revenue affected by mileage changes; is that right?—That is another matter altogether, I should have thought. You mean the receipts?

932. The receipts as affected by mileage changes?—The receipts will be affected by mileage changes, yes.

933. Yes, I follow. I want to see if I have the picture at all right; at line 13 you give the overall effect of change in volume of traffic at £0.7m. as compared with the previous year?—Yes.

934. I appreciate that that is a final figure, but can you assist me about that; in that figure is there a figure in respect of lost mileage as distinct from the other pluses and minuses in mileage changes? Have you a figure of lost mileage in 1960 over 1959?—I do not honestly know,

and I do not think I can tell you; I think Mr. Harbour can answer that question, if it is capable of being answered.

935. But at any rate that is really Mr. Harbour's figure—the £0.7m.?—Yes.

936. Following on your future year, I am still keeping in mind these lines to which I have referred you, lines 10, 11 and 13. Lines 10 and 11 do not change, and there is a slight plus in line 13 about which no doubt I shall have to ask Mr. Harbour. What I wanted to ask you about here was this: In a situation of lost mileage on the roads and the general traffic conditions, I believe it is your policy, is it not, to reduce your scheduled services as closely as possible to the actual staff position?—I would not call that a policy, Mr. MacLaren; our policy is to reduce our scheduled mileage as closely as possible to the traffic demands.

937. Yes, obviously; I am sorry. In following that policy, or in trying to come as closely to it as you can, do you schedule what you assess to be the scheduled mileage appropriate to the traffic demand, and then suffer such lost mileage as might arise from staff shortages during the year, or in these schedules do you try and come as closely as possible to the existing staff?—I am afraid I am out of my depth again; it is not a matter for me.

938. Then I shall have to ask Mr. Harbour that. Perhaps you could help me a little further on one other figure; if we look at your equivalent figure comparing the 1959 budget with the actual for 1959, we have an increase in the level of overtime and rest-day working?—

(President): What are we looking at now, Mr. MacLaren?

939. (Mr. MacLaren): I am so sorry, Sir; this is Exhibit AE 2, line 11. (To the Witness): I appreciate that this comparison is with the budget and not with an actual year, but there is an increase in overtime and rest-day working over your expectation when the budget was drawn for the purpose of 1959?—Yes.

940. There is an increase of £0.6m., and that is carried forward, is it not, in line 11 of the next Table by a further £0.4m.?—Yes.

941. Those two figures are, of course, cumulative, are they not?—Yes.

(Mr. Fay): I think in fact it is the next Table but one.

942. (Mr. MacLaren): Yes. (To the Witness): I think you did say that having to staff your services by this additional overtime and rest-day working is a more expensive way by and large of staffing?—Yes, certainly.

943. So that over your 1959 budget there is in fact an increase in this item of £1m. and when we come into the proposed year I cannot find—although it may happen somewhere else—any compensating figures as though you expected this high level of overtime and rest-day working

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[Continued]

to continue. Is that right; is that what you expect?—Yes. In fact, it is what we hope.

944. And I suppose it would be appropriate to ask Mr. Harbour why he hopes that?—Yes.

945. (President): I do not quite know why you should hope it, Mr. Evershed; I should have thought that what you ought to hope is that there will be a reduction in future years as compared with 1960 in the overtime and rest-day working charge?—Perhaps I was being a little cryptic, Sir, but if we do not get a substantial level of overtime and rest-day working we shall not be able to run the mileage we want to run.

946. I see; you do not expect to make it up with an increase in staff?—Not wholly, no.

947. (Mr. MacLaren): In fact, in your forward estimate you have made no allowance. Is this not right? Sometimes I know there are these noughts and pluses and minuses in the end, but am I right in assuming that the blank in the second column of line 11 of Exhibit AE4 indicates that you do not expect in the future year any saving on this item? Is that a fair interpretation?—Yes.

948. And I suppose it will fall to Mr. Harbour and not to you to answer that, but I think I ought to give you the opportunity of saying anything that may be relevant. Perhaps I might just trace that through again in Exhibit AE2 in line 13; there is a plus £0.1m. over the budget?—Yes.

949. If we come to the first column of the same line there is a minus £0.7m., which gives us a net minus of £0.6m., and then in the future year the revenue lift as a result of volume in traffic (which is not quite the same as mileage changes) is an anticipated lift of £0.2m.—An increase of £0.2m., yes.

950. Still leaving the loss on this calculation of volume of traffic at £0.4m.—

(President): As compared with the 1959 budget?

951. (Mr. MacLaren): Yes; that is what I was coming to.—Yes.

952. Would you rather I asked Mr. Harbour to deal with the details of that?—Yes, if you please, on questions of traffic and operation.

953. I fully understand. Just to clinch that, the figures speak for themselves, but the increase in line 11 over the 1959 budget of £1m. as a result of staff conditions is an item worthy of quite serious consideration from your point of view; it is a large sum?—I am not quite clear what you are talking about.

954. I am sorry; have returned to line 11 of AE4, which I asked you to trace through. The difference from the 1959 budget is altogether a difference of £1m. on that line carried forward to the future year?—Yes.

955. And it is the future year in which we are interested, of course. That difference of £1.0m. is a very substantial one, is it not? Have you considered any way of operating and reducing that excess over ordinary wage rates and ordinary overtime?—I do not think I can deal with that; I am sorry.

956. That is also an operating question?—It is a question of staff utilisation as I understand it, and that is a matter for Mr. Harbour.

957. Then I will not ask you anything further about that. I should like to look now, still on Exhibit AE4, at line 7 if I may; you gave an explanation of the figure for the future year of an additional maintenance charge of £0.4m., and you might be able to help me a little further on that. I understand first of all that in the future

year you have come into operation, or indeed you will have in operation, modern stock; it is the replacement of trolley buses, new stock on the Underground and the electrification of the Metropolitan line to Amersham. Is that right?—Yes, but I think the electrification of the Metropolitan line to Amersham will come in rather late in 1961.

958. Not until 1961?—The back end of 1961.

959. Yes, I understand that. The effect of the modernisation of your stock, I imagine, is to reduce maintenance, is it not?—Yes.

960. And that figure will be somewhere inside this plus £0.4m., will it?—I do not suppose we had any economies in maintenance due to the use of new stock. I think I did explain this morning that the major economy in maintenance expenditure due to the introduction of new stock comes from the overhaul, which may take place at four, five or six-yearly intervals. The day-to-day maintenance, washing and caring for a new vehicle, is not very different from the day-to-day maintenance of an old vehicle.

961. Yes, I appreciate that. Perhaps I am asking you something which you have discussed this morning; perhaps I am just repeating something that was said this morning; if I am perhaps you will tell me, and I will read the transcript.

(President): I hope you will anyhow, Mr. MacLaren!

962. (Mr. MacLaren): I will share that pleasure with the Tribunal. (To the Witness): Do your overhaul charges fall in the year in which they take place on the old stock?—The overhaul charges will fall in the year in which they take place, yes.

963. As the new stock comes into operation, you will at least be relieved of overhauling the over-age stock, will you not?—As soon as it has gone out of service, yes.

964. (President): What is going to happen to it; is it going to Moscow, for their Underground?—A lot of it will be scrapped, Sir, and a lot of it will be transferred from the Uxbridge Branch of the Metropolitan Line to take the place of the older stock on the District Line.

965. I was thinking in the terms of the Tube, not the Underground; what will happen to the old Central London Line stock?—It will be scrapped, Sir.

966. It will be beaten into flat sheets, like a scrapped motor car?—Yes, Sir.

967. (Mr. MacLaren) (To the Witness): Perhaps you will understand if I put it generally to start with. Let me take it step by step; Mr. Harbour in fact referred to break-downs on the Tubes owing to stock failure, and mileage losses as a result, and I should have expected that as a result of running over-age stock, you would have had exceptional maintenance expenditure; would that be right?—I think it is quite likely that to some extent you have exceptional maintenance expenditure in connection with old stock, yes.

968. And with its replacement one would expect a compensating figure when we are moving from year to year like this on maintenance, as this troublesome stock goes out of use?—Not necessarily; even new rolling stock can give trouble!

969. Yes, so I have read. But it ought not to give trouble under the maintenance item, ought it?—I think it is fair to say that a large part of the expenditure is not very much affected by the age of the vehicle itself. You may need a certain amount more material for an old vehicle, but I think the labour cost would probably be about the same, irrespective, very largely, of the age of the vehicle.

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[Continued

970. It comes to this then, that in incurring the increased replacement costs on the new vehicles—which of course must arise from their price?—Yes.

971. There is no compensation in reduction of maintenance charges worthy of entering into these figures?—I do not think there are any in these figures, no; but we shall get economies in overhaul expenditure.

972. But what you are saying is that you will not feel those economies for some years; is that right?—Yes.

(Mr. MacLaren): I shall be a few more minutes, Sir; I

do not know whether the Tribunal was thinking of rising now?

(President): Perhaps if we adjourn now, Mr. MacLaren, you will have even fewer questions to ask tomorrow morning. Then are you going to re-examine, Mr. Fay?

(Mr. Fay): I was going to take instructions tonight, Sir; it may be that I shall ask you for permission to defer my re-examination of this Witness until I have had a chance of examining Mr. Hill's tables.

(President): Very well.

(The Witness withdrew)

(Adjourned until tomorrow morning at 10.30)

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[Continued]

TABLE SWH 1

BRITISH TRANSPORT COMMISSION
CENTRAL CHARGES

1958 & 1959

(This Table is a continuation of Table SWH 4
as printed in Minutes, Charges Scheme, 1958,
page 219)

(A) Charges for service of capital

	1958 £'000	1959 £'000
1 Interest on stock and other loans	72,392	82,785
2 Capital Redemption	3,269	3,269
3 Amortisation of stock discount	564	564
4 Stock issue expenses	—	—
5 Management of stocks and loans	241	234
6	76,466	86,852
7 Less, interest received	1,580	1,775
8 Sub-total	74,886	85,077

(B) Other items

9 Central administration	1,930	1,905
10 Compensation of staff	21	20
11 Winding up transferred undertakings	—	—
12 Profit (Cr.) or Loss (Dr.) on sale of investments	Cr. 1	Cr. 5
13 Miscellaneous receipts	Cr. 71	Cr. 56
14 Grand total	76,765	86,941

Less Interest on Advances—
(Special Account)

15 (1) for capital expenditure (B.R.)	8,626	14,177
16 (2) for deficits (B.R.)	7,244	11,519
17	15,870	25,696
18 NET	60,895	61,245

TABLE SWH 2

BRITISH TRANSPORT COMMISSION
LONDON TRANSPORT EXECUTIVE(A) Allocation of Central Charges in ratio of Capital
invested in L.T.E. to Total Capital Invested, 1958
and 1959

(B) L.T.E. Financial Results in 1959

(This Table is a continuation of Table SWH 4 as printed in
Minutes, Charges Scheme, 1958, page 220)(A) Capital Invested : London Transport
Executive

	1958 £m.	1959 £m.
1 Fixed Assets	143	146
2 Stores and Materials	4	4
3 Accumulated Deficit	14	13
4	161	163
5 Less Balance of Maintenance Equalisation A/c	10	10
6 Net Capital Invested	151	153
7 Mean for Year	151	152

B.T.C.

8 Fixed Assets	1,956	2,073
9 Stores and Materials	126	107
10 Accumulated Deficit	299	399
11	2,381	2,579
12 Less Balance of Maintenance Equalisation A/c	228	216
13 Net Capital Invested	2,153	2,363
13(a) Mean	2,042	2,258

Less Mean advances:

13(b) Capital purposes (B.R.)	155	258
13(c) Deficit (B.R.)	139	228
14 Mean for Year	1,748	1,772
15 Total Central Charges	60.9	61.2
16 Apportioned to L.T.E. in ratio to capital invested (Line 7 to Line 14)	5.3	5.3

(B) London Transport Executive

17 Net Receipts	1.8	6.0
18 Freight Rebates Fund	—	—
19	1.8	6.0
20 Central charges (per line 16)	5.3	5.3
21 Net Surplus (Cr.) or Deficit (Dr.) for year	Dr. 3.5	Cr. 0.7
22 Accumulated Deficit (Dr.)	Dr. 13.8	Dr. 13.1

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[Continued]

TABLE SWH 3

LONDON TRANSPORT EXECUTIVE
CONTRIBUTION TO CENTRAL CHARGES ON BASIS OF L.T.E. AS A SEPARATE
UNDERTAKING—1948-57

(£m.)

Year	Interest on Capital Obligations	Interest on Capital Balances				Net Revenue	"Central" Charges				Surplus or Deficit for Year	Deficit or Surplus for Year	Accumulated Surplus or Deficit (D)	Balance Sheet B.T.C. Loan
		Balance in hand at beginning of year	Cap. Expenditure in year less internal provisions	Balance at end of year	Interest		Interest (Col. (2) less Col. (6))	Share of Expenses of B.T.C.	Interest on accumulated Surplus (Cr.) or Deficit (Dr.)	Total Charges				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
1948	4.86	41.00	5.39	35.61	Cr. 1.15	7.52	3.71	0.31	Cr. 0.08	3.94	3.58		3.58 S.	39.19
1949	4.86	35.61	8.08	27.53	Cr. 0.95	5.23	3.91	0.30	Cr. 0.15	4.06	1.17		4.75 S.	32.28
1950	4.86	27.53	8.52	19.01	Cr. 0.70	3.16	4.16	0.36	Cr. 0.15	4.37		1.21	3.54 S.	22.55
1951	4.86	19.01	4.00	15.01	Cr. 51	—	4.35	0.40	Cr. 0.07	4.68		4.69	1.15 D.	13.86
1952	4.86	15.01	5.66	9.35	Cr. 0.37	2.30	4.49	0.47	Dr. 0.04	5.00		2.70	3.85 D.	5.50
1953	4.86	9.35	1.49	7.86	Cr. 0.26	2.06	4.60	0.47	Dr. 0.13	5.20		3.14	6.99 D.	0.87
1954	4.86	7.86	—	8.62	Cr. 0.25	3.83	4.61	0.48	Dr. 0.19	5.28		1.45	8.44 D.	0.18
1955	5.06	8.62	—	11.25	Cr. 0.30	5.05	4.76	0.62	Dr. 0.22	5.60		0.55	8.99 D.	2.26
1956	5.34	11.25	—	14.04	Cr. 0.38	4.62	4.96	0.56	Dr. 0.25	5.77		1.15	10.14 D.	3.90
1957	5.34	14.04	—	16.08	Cr. 0.45	5.71	4.89	0.57	Dr. 0.26	5.72		0.01	10.15 D.	5.93
	49.76	—	24.92	—	Cr. 5.32	39.47	44.44	4.54	Dr. 0.64	49.62	4.75	14.90	10.15 D.	—

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[Continued]

TABLE SWH 5
(being Notes to
Tables SWH 3 & 4)LONDON TRANSPORT EXECUTIVE
CONTRIBUTION TO CENTRAL CHARGES OF B.T.C. ON BASIS OF L.T.E.
AS A SEPARATE UNDERTAKING

(1) Table SWH 3 is a representation of Exhibit PJ 16 corrected for what are considered to be errors in the latter. Similarly, Table SWH 3 is a representation of Exhibit AE 6.

(2) Notes to Table SWH 3 and 4

Col. (2).	Interest on Capital obligations :	£m.
1948-1954.	Interest on £128.08m. B.T. Stock issued on acquisition of L.P.T. Board undertaking and on loan £29.16m. from London Transport Finance Corporation, less interest on £3.14m. invested in "Surplus lands"	4.49
	Interest on Stock issued on acquisition of main line Railway Companies, in respect of assets taken over by L.T.E. on nationalisation (3% on book value £12.2m.)	0.37
		4.86
1955-1958.	As above, adjusted to take account of B.T. 4% Stock, issued in 1955 to finance repayment of L.T.F. Corporation loan 1955	5.06
		1956-57
		5.34

Col. (3).	Capital balances.	
	Balances at 1st January, 1948, £41.0m.	
	This comprises: Trust Fund taken over on acquisition of L.P.T. Board (after allowing for repayment of loans from Trust Fund and L.M.S.)	38.8
	Net current assets of L.P.T.B.	3.5
		42.3
	Less required for working capital	1.3
		41.0

A further amount accrued later to L.T.E. in respect of interest on Trust Funds but as the amount is not known, it is not brought into credit.

(Sir R. Wilson, 1953 Hearing. Q. 1440.) Amount was apparently of order of £2m.

- Col. (4). Capital expenditure in year less internal provisions.
As in PJ 16, Col. 4. AE 6, Col. 4.
- Col. (6). Interest on capital balances.
- Col. (10). Interest on accumulated surplus or deficit.
Calculated at 3% p.a. until exhaustion of credit balance (col. (15)), that is to say, in year 1960. For 1960 and later years, 6% used.
- Col. (7). Net Revenue Balance.
As in PJ 16, Col. 11 and AE 6, Col. 10.
- Col. (9). Share of central expenses of B.T.C.
Table SWH 3 (Up to 1957). Calculated at 10% of "central charges" of B.T.C. as appearing in accounts (other than interest items and items that are not truly central charges at all, e.g. write off of Road Haulage Stores, 1949).
Table SWH 4 (1958-1962). As above but approximately 9% used.
- Col. (15). Balance of B.T.C. Loan. This is aggregation of Col. (5) and Col. (6), which until 1960 can be deemed a loan from L.T.E. to B.T.C. and from 1960 a loan from B.T.C. to L.T.E.

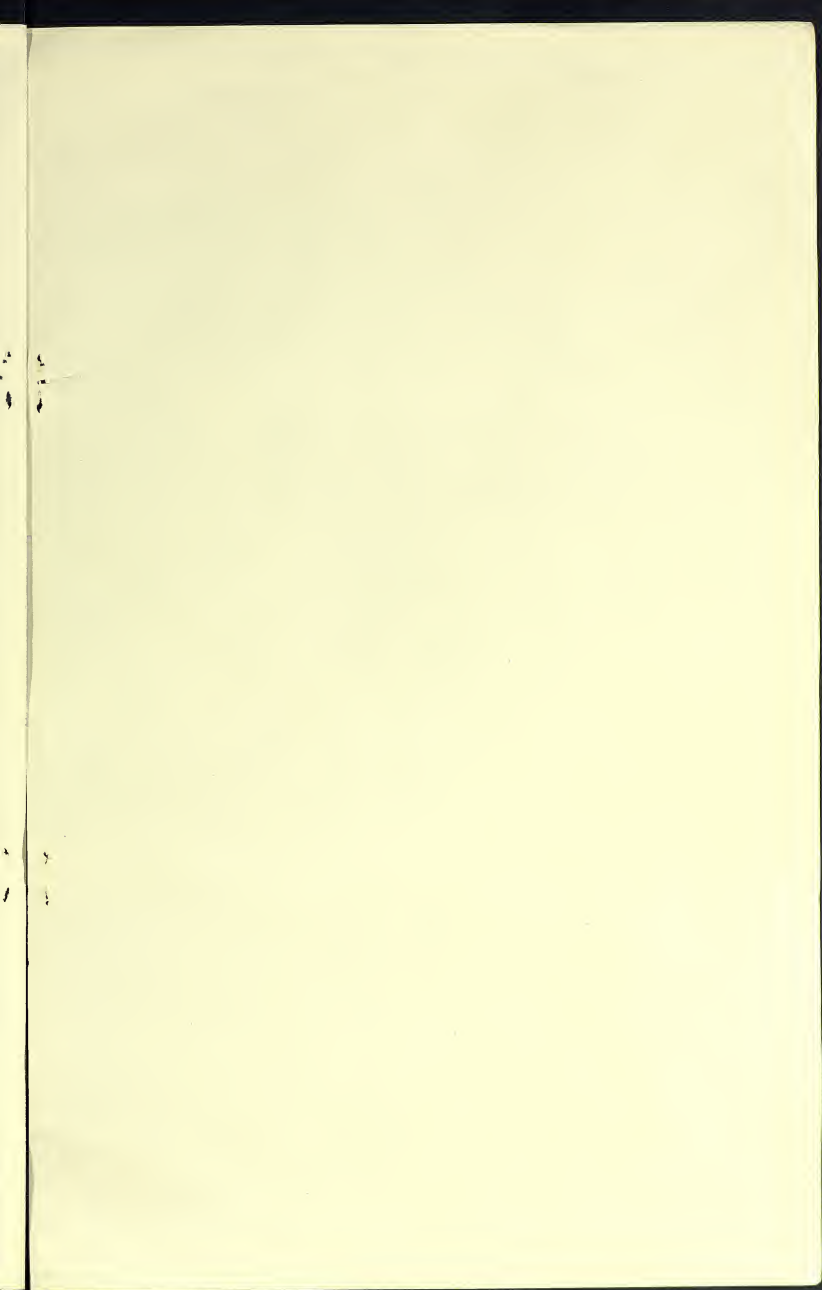
15 February, 1961]

[Continued

TABLE SWH 7

BRITISH TRANSPORT COMMISSION
CENTRAL CHARGES AND SPECIAL ITEMS AS PER ACCOUNTS:
1948—1959, INCLUSIVE

Ref.	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
1												
2	42,297	43,937	44,956	44,829	46,009	50,446	52,411	53,827	54,720	61,888	72,392	82,785
3	2,488	2,564	2,627	2,671	2,820	2,869	2,984	3,171	(283)	(6,546)	(15,871)	(25,696)
4	—	—	64	95	184	485	473	515	3,568	3,569	3,568	3,568
5	350	361	—	—	409	—	325	93	562	564	564	564
6	45,135	46,863	47,967	47,881	49,693	54,189	56,487	57,885	58,807	65,970	76,466	86,852
7	4,104	3,139	2,223	935	1,090	1,711	2,549	2,760	1,145	1,243	1,380	1,775
8	41,031	43,724	45,744	46,946	48,603	52,478	53,938	55,125	57,662	64,727	74,886	85,077
9	417	522	902	1,082	1,071	1,060	1,087	1,397	1,595	1,771	1,930	1,905
10	—	3	15	37	37	33	25	21	22	22	21	20
11	72	5	—	—	—	—	—	—	—	—	—	—
12	Dr. 13	Cr. 426	Cr. 161	Cr. 87	Dr. 4	Cr. 47	Cr. 264	Dr. 832	Dr. 33	Cr. 77	Cr. 1	Cr. 5
13	502	104	756	1,032	1,112	1,046	848	2,250	1,650	1,716	1,950	1,920
14	—	—	—	3	—	—	—	—	—	—	—	—
15	46	13	5	3	—	—	—	—	—	—	—	—
16	212	60	177	115	120	76	80	135	123	50	71	56
17	244	31	574	914	992	970	768	2,115	1,527	1,666	1,879	1,864
18	41,275	43,755	46,318	47,860	49,595	53,448	54,706	57,240	59,189	66,393	76,765	86,941
19	384	625	530	391	177	—	—	—	—	—	—	—
20	—	700	1,177	206	280	—	—	—	—	—	—	—
21	—	—	—	Cr. 483	—	—	—	—	—	—	—	—
	41,659	45,080	48,025	47,974	50,052	53,448	54,706	57,240	59,189	66,393	76,765	86,941



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